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THE 15th ANNUAL DOLLARS PER DAY SURVEY OF THE SMALL FOOD STORE INDUSTRY

AND WHAT THE 12 LARGEST OIL COMPANIES SAID ABOUT GASOLINE MARKETING IN 1985

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The Fifteenth Annual Dollars Per Day Survey

Editor	Ned Roscoe
Proofreaders	Diane Erbeznik Jeremy Chapman Rod Hussey Connie Chance
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Errors and Omissions: Although the staff has gone to great lengths to verify the information included in this Survey, there may still be some errors and omissions. Please send your comments and corrections to **The Dollars Per Day Survey,** P.O. Box 886, Benicia, California 94510.

Sorry, no complimentary review copies for consultants, advertising agents, or professors.

ABOUT THE AUTHOR

John Roscoe operates a chain of discount stores in Northern California, Idaho and Colorado.

Mr. Roscoe has published the Dollars Per Day Survey every year since 1971. The Survey is generally regarded as the most accurate source of information on the C-store industry. Since 1985, the Survey has been combined with "What the 12 Largest Oil Companies say about Gasoline Marketing."

Any major oil companies interested in discussing high volume branded gasoline marketing in Northern California should contact Mr. Roscoe at (707) 745-6691.

The Dollars Per Day Survey presents the financial and operating results of the leading publicly held small food store chains on a dollars per store per day basis. The dollars per day method reduces the operating figures of the chains to a common denominator: store accounting days. Each chain is analyzed on this basis and then ranked in comparison to the other chains.

SURVEY WINNERS: SHOP & GO

For the fifth year in a row, Shop & Go, Inc. is the pretax profit leader in the Survey. Shop & Go earned $116.77 per store per day, to win the Survey for the seventh time in fourteen years.

Shop & Go, which operates 446 stores in Florida and Georgia, is managed by Bob and Lorena Jaeb and their sons. The entire chain has been purchased by Circle K.

SURVEY PARTICIPANTS

The chains included in this Survey are the largest chains in the business. To be included in this report, companies must meet the following criteria:

1. They must be publicly held.
2. Store operating figures must be adequately separated in the annual report from other lines of business in which the company might be engaged, so that reasonable deductions can be made concerning store operating results .

The following chains are analyzed in this report:

1. Shop & Go
2. Circle K
3. National Convenience Stores
4. Southland
5. Casey's General Store
6. Sunshine Jr.
7. Munford
8. Dairy Mart
9. CONNA

All of the data used is easily verifiable. It is derived from either the chain's annual report to the stockholders, the proxy statement, or the Form 10K filed with the Securities and Exchange Commission.

SURVEY METHOD: Store Sales and Gasoline Sales

Store sales are considered to be merchandise sales made from the store. These include the sales of fast food, packaged goods, and non-food merchandise sold in a convenience store. Gasoline sales are sales of petroleum products, usually made from remote controlled dispensing systems that are activated at the checkstand inside the store.

Store sales for all of the chains are comparable. We have separated store sales and gasoline sales and have excluded gasoline sales from our sales computations and comparisons. Gasoline sales and gallonage figures are examined in Part II of this report.

Companies are ranked in the Survey to show relative performance among chains.

THE FIFTEENTH ANNUAL DOLLARS PER DAY SURVEY

THE SMALL FOOD STORE BUSINESS RANKED BY DOLLARS OF PROFIT PER STORE PER DAY

DOLLARS PER DAY RANKING	COMPANY	YEAR ENDED	NUMBER OF STORES	STORE DAYS	SMALL FOOD STORE SALES	AVERAGE SALES PER STORE PER DAY	SALES INCREASE PER STORE PER DAY	PERCENT OF SALES INCREASE IN $DPD SALES	PRETAX PROFIT	INVENTORY VALUATION METHOD	AFTER TAX PROFIT	AFTER TAX PROFIT AS A PERCENT OF STORE SALES	PROFIT PER STORE PER DAY PRETAX	PROFIT PER STORE PER DAY AFTER TAX
1	Shop & Go	3-25-85	446	159,432	$ 185,584,000	$1,164	$+118	+11%	$ 18,617,373	LIFO	$10,204,832	5.50%	$116.77	$64.00
2	Circle K	4-30-85	2,669	896,488	1,090,042,000	1,216	+77	+7%	59,090,000	LIFO	33,421,000	3.06%	65.91	37.27
3	National Convenience Stores	6-30-85	1,130	403,484	561,900,000	1,393	+26	+2%	23,538,000	FIFO	15,509,000	2.76%	58.33	38.43
4	Southland	12-31-84	7,473	2,703,276	4,793,890,000	1,773	+117	+7%	137,335,970	LIFO	127,722,440	2.66%	50.80	47.24
5	Casey's	4-30-85	482	165,865 83,015*	67,577,550*	814	+8	+1%	7,423,000	LIFO	4,143,000	—*	44.75	24.98
6	Sunshine Jr.	12-27-84	336	123,942	80,673,117	651	+93	+16%	3,491,352	LIFO	2,065,483	2.56%	28.16	16.66
7	Munford	1-3-85	835	324,770	302,543,640	931	+86	+10%	8,025,500	FIFO	5,601,799	1.85%	24.71	17.24
8	Dairy Mart	1-31-85	200	68,808	78,946,265	1,147	−47	−4%	1,650,035	LIFO	1,292,035	1.63%	23.98	18.78
9	CONNA	5-26-85	393	145,236	247,995,000	1,707	+97	+6%	1,896,000	FIFO	948,000	.38%	13.05	6.52
Totals & Averages			13,964	4,991,301 4,908,451*	$7,409,151,572	$1,509	$ +96	+6.8%	$261,067,230		$200,907,589	2.71%	$52.30	$40.25

Sales shown on this schedule are for food stores only. All gasoline sales have been excluded.
Gasoline sales for the year were $3,582,304,786.
Total sales for both food and gasoline were $10,991,456,358.
*Casey's store sales for company operated stores only.

SURVEY METHOD: How Dollars Per Day figures are computed:

Figure operating store days:

Because the actual dates of new store openings are not known, all stores opened within the operating year were computed at the 1/2 rate. We have used the 1/2 year basis for store closings since the 12th Survey.

Figure Dollars Per Day:

Store days are divided into other operating figures shown in the annual reports to reduce these figures to a dollars per day basis. Any operating figure — sales, expenses, pretax and after tax profit — can be divided by store days to show its average dollars per store per day.

In this report, $DPD signifies dollars per store per day.

What This Shows:

When compared by company, dollars per day shows the relative performance of the surveyed chains. We also show the growth rates of pretax and after tax profits in current and constant (1971 = 100) dollars.

The Primary Purpose of the Survey:

The purpose of the $DPD Survey is to show and compare pretax dollars of the leading chains in the industry. We hope this will create an awareness of the profitability of the small food industry and point out areas where operators can increase the profitability of their chains.

Variations in Accounting Methods:

Since all data is obtained from the audited annual reports of the companies and/or their Forms 10K, and is based upon figures given by the chains themselves, we do not make allowances for variations in accounting practices among the chains. Where assumptions have been made, they have been indicated clearly on the computation sheet for each company.

Compute Your Own Dollars Per Day Figures:

You can compute dollars per day for your company and compare them with the leading companies in the industry.

You will need these figures:

Number of stores you operated at the beginning of your last year,
Number of stores you added during the year,
Total sales,
Total pretax profit,
Total after tax profit.

DOLLARS PER DAY COMPARISON OF VARIOUS TYPES OF RETAILERS ON A DOLLARS PER DAY PER STORE BASIS SHOWING SALES AND PROFIT PER DAY PER STORE

FIGURES FOR YEARS ENDED	FOTOMAT 1-31-85	SWENSEN'S 12-31-84	7-ELEVEN STORES 12-31-84	FAMILY DOLLAR STORES 8-31-85	CROWN BOOKS 1-31-85	McDONALD'S 12-31-84	SAFEWAY 12-29-84	SEE'S CANDY 12-29-84	LUCKY STORES (FOOD STORES) 1-08-85	LONGS 1-31-85	WAL MART 1-31-85	PIC 'N' SAVE 12-31-84	TOYS R US 1-03-85	PRICE COMPANY 8-31-84
Average Daily Sales Per Store	$219	$733	$1,773	$1,334	$1,845	$3,400	$21,244	$1,774	$28,143	$20,100	$24,966	$7,342	$23,408	$239,890
Sales Growth % on DPD Basis	+22%	+1%	+7%	0%	None	+7%	+3%	+1%	+8%	+5%	+16%	-3%	+4%	+17%
Profit Per Day Per Store Pretax	$-17	$-13	$51	$169	$198	$240	$323	$335	$543	$1,143	$1,955	$2,257	$2,836	$11,825
Profit Per Day Per Store After Tax	—	—	$47	$91	$104	$132	$200	$162	$296	$586	$1,056	$1,140	$1,532	$6,007
Pretax Profit % on Sales	—	—	2.86%	12.68%	10.75%	7.02%	1.52%	18.88%	1.93%	5.69%	7.83%	30.73%	12.11%	4.92%
After Tax Profit % on Sales	—	—	2.66%	6.82%	5.66%	3.89%	.94%	9.12%	1.05%	2.91%	4.23%	15.50%	6.55%	2.50%
Average Sales Per Square Ft. Per Day	—	—	.74	.19	—	—	.74	—	.90	.77	.42	—	—	—
Margin %	76.63%	—	N/A	38.50%	—	62.60%	23.62%	—	—	24.01%	26.23%	54.67%	33.08%	8.98%
# of stores at Year End	2,262	387	7,473	920	181	8,304	2,571	214	622	191	756	90	217	15
Store Days	825,630	135,765	2,703,276	307,435	62,037	2,943,006	925,470	76,622	220,532	68,443	256,383	32,025	72,695	4,758
Average Sales Per Store Per Year	$79,935		$647,145	$486,545	$675,270	$1,244,400	$7,754,060	$645,736	$10,272,195	$7,336,500	$9,112,590	$2,679,830	$8,543,920	$73,437,270
Total Sales	$180,543,000	$99,600,000	$4,793,890,000	$410,088,400	$114,439,000	$10,007,000,000	$19,642,201,000	$135,946,000	$6,206,600,000	$1,375,769,000	$6,400,861,000	$235,147,000	$1,701,700,000	$1,141,400,000
Total Pretax Profit	($14,341,000)	($1,790,000)	$137,335,970	$52,005,277	$12,308,000	$707,000,000	$298,822,000	$25,670,000	$119,800,000	$78,294,000	$501,420,000	$72,281,000	$206,174,000	$56,266,000
Total After Tax Profit	—	—	$127,733,440	$28,006,936	$6,481,000	$389,000,000	$185,011,000	$12,406,000	$65,362,880	$40,094,000	$270,767,000	$36,510,000	$111,424,000	$28,586,000
Total Square Feet	—	—	17,935,200	—	—	—	73,300,000	—	18,520,000	4,845,000	41,900,000	—	—	—
Return on Average Stockholder Equity	—	—	14.2%	27.1%	9.2%	21.0%	12.94%	—	16.00%	16.56%	31.44%	35.23%	21.45%	33.54%
# of Employees	—	—	61,800	—	—	—	168,590	—	—	10,000	81,000	—	—	—
Net Store Growth During Year	-561	+30	+174	+155	+23	+526	+84	+7	+55	+13	+111	+5	+42	+4
Type of Store	Photo Finishing	Franchise Ice Cream	C-Type	Variety Discount	Discount Books	Fast Food	Supermarket	Candy	Supermarket	Discount Drug	Discount	Close Out	Toys	Warehouse
% Store Growth in Year	-20%	+1%	+2%	+20%	+15%	+7%	+3%	+3%	+10%	+7%	+17%	+6%	+24%	+36%
Market Price 11-22-85	1½	1⅛	41	21¼	13⅜	73½	36½	2,600	25½	29½	29⅛	30⅛	37¼	64½
Earnings Per Share last 12 months	($1.42)	($.43)	$3.41	$.98	$.81	$4.39	$3.12	$129.82	$1.84	$1.88	$1.91	$1.25	$1.30	$1.27
PE	—	—	10	22	15	15	9	36	12	28	28	24	28	51
Principal on Forbes 400 Richest List				X		X		X			X			X

THE CONVENIENCE STORES SEGMENT OF THE NATIONAL FOOD STORE BUSINESS

1974 THROUGH 1984

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Total Food Store Sales	$131 Billion	$143 Billion	$153 Billion	$163 Billion	$180 Billion	$199 Billion	$221 Billion	$241 Billion	$252 Billion	$264 Billion	$279 Billion
Total Convenience Store Business	$5.3 Billion	$6.2 Billion	$7.4 Billion	$7.4 Billion	$8.7 Billion	$10 Billion	$12.4 Billion	$14.1 Billion	$15.1 Billion	$16.5 Billion	$19.0 Billion
Convenience Store Business as a % of Total U.S. Food Store Business	4.05%	4.34%	4.84%	4.54%	4.84%	5.03%	5.61%	5.85%	5.99%	6.25%	6.81%
Total Number of Food Stores	198,130	191,810	183,700	175,820	169,500	168,900	167,100	165,000	162,000	158,000	156,000
Total Number of Supermarkets	31,430	31,710	32,700	33,120	33,400	33,600	34,900	28,680*	28,950*	29,950	30,175*
Total Number of Convenience Stores	22,700	25,000	27,400	30,000	32,500	34,125	35,800	37,800	38,700	40,400	42,950
Convenience Stores as a % of Total Food Stores	11.5%	13.0%	14.9%	17.0%	19.2%	20.2%	21.4%	22.9%	23.9%	25.6%	27.5%
Average Annual Sales— Convenience Stores	$233,480	$248,000	$270,073	$246,666	$268,692	$293,040	$346,368	$373,015	$390,180	$408,415	$442,375
Average Daily Sales— Convenience Stores	$642	$679	$741	$673	$734	$802	$949	$1,023	$1,068	$1,118	$1,210
Consumer Price Index— Urban Consumers 1967 = 100	139.7	156.1	166.7	175.3	187.2	207.7	233.2	260.5	282.5	299.1	316.1
Average Daily Convenience Store Sales adjusted for inflation over 1974 base year		608	621	536	548	539	568	549	528	522	535

*Supermarket Qualifications — to include only stores doing over $2,000,000 annually

Convenience Stores' increase in percentage of total food store business from 1974 to 1984 — 69.15%

Source of Information:
Progressive Grocer Annual Survey of Food Stores.

1986 EDITORIAL COMMENTS

In past years I've written an editorial at the end of the Survey. This year I've departed from that practice, and instead have prepared a few comments about each of the companies analyzed in the report. These comments follow the sections containing the information on the individual companies.

At the end of the Survey I've reprinted the editorial comments from last year which summarized my current thinking on convenience stores. I am not optimistic at all about the future of stores that sell less goods for more money, particularly when the major oil companies have decided they can use this format to save their retail networks. Sometime in the past two years someone apparently yelled "Fire" at a meeting of major oil company vice presidents, and now they're all trying to get through the false exit of convenience stores at the same time. They have recognized that you can't survive on gasoline alone. They have not yet realized that the shopping public doesn't need, doesn't want, and won't support a Blind Newsstand on every corner.

I'd again like to direct your attention to the schedule showing the comparison of various retail offers on page 5. If you are not yet in the convenience food store business, and want to expand your present offer, think of the alternatives. There is a large consumer market for other types of offers and goods. My advice is to get into a business with more economic viability.

HISTORICAL SUMMARY: SHOP & GO, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended 3/28/85

Inventory Accounting: LIFO (Excerpt Gasoline)

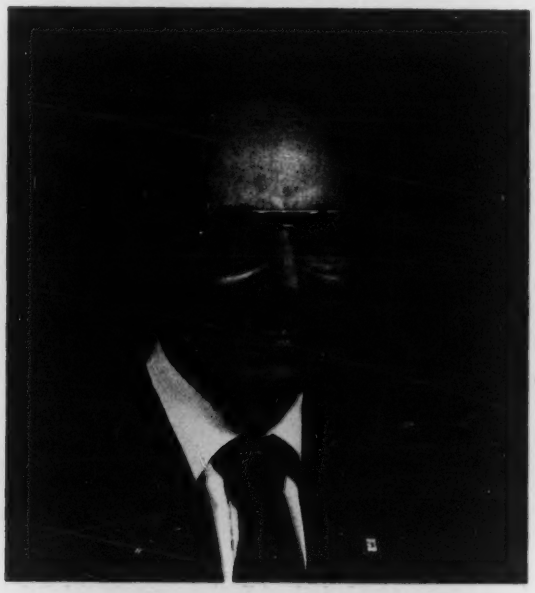
	1ST SURVEY	3RD SURVEY	5TH SURVEY	7TH SURVEY	9TH SURVEY	10TH SURVEY	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY
						YEAR ENDED					
	3/31/71	3/31/73	3/31/75	3/31/77	3/29/79	4/03/80	4/02/81	4/01/82	3/31/83	3/29/84	3/28/85
SHOP & GO, INC. **Mango, Florida**											
Number of Stores	121	134	235	342	379	381	412	405	415	430	446
Store Growth in Year		13	65	57	8	2	31	-7	10	15	16
Store Days		48,910	74,860	114,456	136,500	140,609	144,326	147,420	149,240	153,790	159,432
Sales per Day		$532	$667	$613	$687	$771	$848	$913	$892	$1,046	$1,164
Sales Growth $DPD			$+20	$-26	$+50	$+84	$+77	$+65	$-21	$+154	$+118
Pretax Profit $DPD		$38.46	$36.31	$27.04	$43.70	$60.70	$64.76	$78.81	$78.74	$107.68	$116.77
After Tax Profit $DPD		$19.12	$19.19	$14.46	$22.62	$31.83	$34.32	$42.40	$43.02	$58.48	$64.00
Store Closures			2	5	19	9	12	21	8	7	6
Gasoline Units			69	192	225	225	265	268	286	307	329
$DPD Ranking		Not Included	2/13	4/13	2/13	2/13	1/12	1/11	1/11	1/11	1/9

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 446 Shop & Go stores on March 28, 1985, all of which are in Florida and South Georgia.

1. The annual report states that total convenience stores merchandise sales were $185,584,000.
2. Store Days:
   Store days of stores open all year: 430 × 364 = 156,520
   Store days of new stores figured for 1/2 year only: 16 × 182 = 2,912
   Total store days: 159,432
3. Sales per Store per Day:
   Sales of $185,584,000 divided by 159,432 store days equals average sales of $1,164 per store per day.
4. Pretax Profits:
   Pretax profits of $18,617,373 have been divided by store days of 159,432 to arrive at a pretax profit of $116.77
5. After Tax Profits:
   After tax profits of $10,204,832 have been divided by store days of 159,432 to arrive at an after tax profit of $64.00
6. New Stores Planned: 24-29 new stores in fiscal 1985.
7. Gasoline not included in sales.
8. Video Commission of $551,000 equals $3.45 per store per day. This is a decrease in video game revenue of $1.69 per store per day from the previous year, and a decrease of $5.45 per store per day over the last three years.

To Our Stockholders



President's Letter

Our fiscal year ended March 28, 1985 has been another record year in earnings and revenues. Net earnings increased 14% to $10,205,000, or $1.01 per share, while total revenues increased 16% to $294,868,000.

During fiscal 1985, 22 stores were opened and six stores were closed, thereby increasing the number of stores in operation to 446 at the end of fiscal 1985.

Much effort has been directed to upgrading and remodeling older stores. Special attention has been given to increasing the ratio of fast food sales to total sales in order to achieve an overall higher gross margin. At this time, the Company has not developed a program for in-house grocery distribution.

The Company's gasoline operations were a major contributing factor to its record performance in fiscal 1985. Gasoline sales increased from 106,000,000 gallons in fiscal 1984 to 130,000,000 gallons in fiscal 1985. We are continuing our program to upgrade existing locations by installing canopies and additional gasoline hoses.

I wish to convey my appreciation to our employees and others who made fiscal 1985 such a successful year.

Robert A. Jaeb

Robert A. Jaeb
Chairman of the Board
President

Management's Discussion (continued)

In fiscal 1983, funds generated from operations and from the issuance of long-term debt were used, among other things, for property additions of $10,145,000. Such additions included the cost of store sites for present and future construction of $2,565,000, the cost of buildings and improvements of $3,233,000, the cost of new gasoline installations and the upgrading of existing locations of $1,127,000, the cost of new store equipment of $1,692,000 and expenditures of $1,528,000 for additions to the vehicle fleet, including $1,066,000 applicable to the purchase of 33 vehicles which were previously leased. The foregoing expenditures include costs applicable to 18 stores which were opened during fiscal 1983 and seven stores which were under construction at March 31, 1983.

Shop & Go intends to continue its expansion program, and is planning on the addition of approximately 20 to 25 new convenience stores in fiscal 1986. The cost of acquiring the sites for and building and stocking these stores is anticipated to be funded from working capital provided by operations and long-term borrowings applicable to specific store sites.

Generally, in each of the last three fiscal years, cash flow from operations has been sufficient to meet working capital requirements. As a result of this high degree of liquidity, the Company has not found it necessary to obtain significant amounts of funds from external sources, except for long-term borrowings relating to specific store locations and, during fiscal 1984, the foregoing purchase of the office and warehouse complex.

The Company currently has a line of credit arrangement with maximum borrowing availability of $4,000,000, none of which was used during the year ended March 28, 1985.

Results of Operations

Comparison of Fiscal 1985 to Fiscal 1984

Net sales increased $40,828,248, or 16.2%, in fiscal 1985 as compared to fiscal 1984 as the result of a 15.7% increase in aggregate convenience store sales and a 17.1% increase in aggregate gasoline sales. Management attributes such sales increases to a 3.8% increase in the average number of stores operating during fiscal 1985 and a 7.4% increase in the number of locations vending gasoline, along with increases in both average per location convenience store sales and average per location gasoline sales. Factors, among others, influencing sales during fiscal 1985 include a continuation of a competitive price structure with respect to gasoline and convenience store products, lower average retail gasoline prices, a continuation of a strong economy in the Company's marketplace and moderate inflation. During fiscal 1985, gasoline sales constituted 37.2% of total net sales as compared to 36.9% during fiscal 1984.

The overall gross profit percentage (net sales minus cost of goods sold as a percentage of sales) increased from 24.4% in fiscal 1984 to 24.8% in fiscal 1985. A higher gross profit percentage earned on gasoline sales as a result of the competitive environment which prevailed was partially offset by a slight decrease in the gross profit percentage on convenience store sales.

Other income decreased from $1,626,127 in fiscal 1984 to $1,435,429 in fiscal 1985 as the result of a decrease in commissions from video games from $790,496 in fiscal 1985 to $551,840 in fiscal 1984.

October 1985

My congratulations to the Jaebs for winning the Dollars Per Day Survey again. They have created the most pretax Dollars of Profit Per Store Per Day for the past five years. They have led the Survey for seven years and have placed second in three additional years. They have been masterful at creating large profits from small stores.

They have also been masterful at selling their company. They sold Shop & Go for over 16 times after-tax earnings and for over three times book value. They owned the majority of the stock and personally retired from the company with a lot of money from the sale. They now lead the schedule of those retiring from the business with the most chips.

I've always marvelled at Bob Jaeb's sense of value about money. Bob didn't waste money. He made a silk purse out of a sow's ear. I hope his sense of value has not been affected by his windfall. There may not always be a Circle K eager to buy. I'm disturbed by rumors of an impending re-entry into the business. Tell me it isn't so — that he is about to trade some of the money from selling his $372,000 cats for someones else's $350,000 dogs.

HISTORICAL SUMMARY: CIRCLE K

Data Taken from the Annual Report
and 10 K for the Year Ended April 30, 1985

Inventory Accounting: LIFO

	1ST SURVEY	5TH SURVEY	10TH SURVEY	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY
					YEAR ENDED			
	4/30/71	4/30/75	4/30/80	4/30/81	4/30/82	4/30/83	4/30/84	4/30/85
CIRCLE K **El Paso, Texas**								
Number of Stores	536	1,024	1,200	1,194	1,211	1,221	2,185	2,669
Store Growth in Year	113	77	42	–6	17	10	964	484
Store Days	175,074	359,746	431,514	435,810	442,015	443,835	567,618	896,488
Sales per Day	$535	$634	$883	$957	$1,003	$1,038	$1,139	$1,216
Sales Growth $DPD	$+28	$+42	$+84	$+74	$+46	$+35	$+101	$+77
Pretax Profit $DPD	$33.39	$25.15	$73.47	$61.33	$60.75	$54.43	$71.18	$65.91
After Tax Profit $DPD	$16.54	$13.11	$39.28	$32.95	$33.41	$29.94	$38.16	$37.27
Store Closures	3	.12	22	28	8	10	31	33
Gasoline Units		516	726	753	780	798	1,463	1,719
$DPD Ranking	1/10	7/13	1/13	2/12	2/11	4/12	3/11	2/9

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 2,669 Circle K stores on April 30, 1985, in 23 Western, Southwestern, Southern, Southeastern, and Midwestern states. Circle K purchased 435 Little General stores on October 5, 1984.

1. Grocery and other product sales were 64.8% of total sales of $1,682,164,000.
2. Store Days:
   Store days of stores open all year: 2.185 × 365 = 797,525
   Store days of Little General stores purchased: (10/5/84) 435 × 207 = 90,045
   Store days for all other new stores figured for 1/2 year only: 49 × 182 = 8,918
   Total store days: 896,488
3. Sales per Store per Day:
   Sales of $1,090,042,000 divided by 896,488 store days equals average sales of $1,216 per store per day for the year. Store sales do not include gasoline sales.
4. Pretax Profit:
   Pretax profit of $59,090,000 divided by 896,488 store days results in a pretax profit of $65.91 per store per day.
5. After Tax Profit:
   After tax profit of $33,421,000 divided by 896,488 store days results in an after tax profit of $37.27 per store per day.
6. New stores: on July 19, 1985 Circle K bought Shop & Go for $166,000,000 or $372,000 a store. On April 30, 1985, 180 new stores were in various stages of development.
7. 84 stores are operated by contract operators and the sales are included. This number decreased by 20 stores from the previous year and 66 stores over the past two years.
8. Profit figures include the results of two outdoor advertising companies acquired during fiscal 1984. The Company states the effect is not material.

TO OUR SHAREHOLDERS

The Circle K Corporation made exceptional progress during the year toward achieving the operational objectives on our growth agenda. It was, in fact, a great year; one in which we dramatically improved service to our customers and expanded our geographical areas of operations. It was a year in which we accelerated the momentum which has been building over the past several years.

As a result, your Company achieved record operating results in every quarter of fiscal 1985. Further geographical expansion into strong market areas, continued attention to improving product mix, customer service, convenience and volume buying power all combined to produce net income of $33,421,000—54 percent greater than the previous record established just last year. Sales for the twelve months ended April 30, 1985 amounted to $1,682,164,000 compared to $1,028,853,000 the year before.

The final quarter of fiscal 1985 was our strongest fourth quarter ever. During the three months ended April 30, 1985, Circle K recorded net income of $8,111,000, an increase of 26 percent over the same quarter last year. Sales during the final three months of fiscal 1985 amounted to $432,890,000 compared to $355,956,000 in the same quarter of fiscal 1984.

We added 484 stores and expanded into four more states during the last twelve months. The acquisition of the Little General Stores Division of General Host Corporation was completed in October, 1984. That acquisition, for $112,000,000 in cash, increased our presence in Florida and Alabama. It also put us into business in Georgia, Louisiana, Mississippi and North Carolina. That brings the number of states in which we operate to 23. In December, we added 21 stores in northern California by acquiring the Day-N-Nite operations in the San Joaquin Valley. In addition to expanding by acquisition, we built 61 new stores during the year.

On July 19, 1985 Circle K purchased 80 percent of the outstanding common stock of Shop & Go, Inc. Shop & Go operates approximately 446 stores, of which approximately 406 are in Florida and 40 in Georgia. A proposal for Circle K to acquire the remaining 20 percent of Shop & Go common stock will be considered by the shareholders of both companies on September 11, 1985.

International expansion took another step forward in October, 1984 when we announced the formation of a tripartite joint venture company. The joint venture is made up of Circle K International, The Uny Company (our Japanese licensee) and Li & Fung, Ltd., a leading import firm in Hong Kong. The joint venture intends to license Circle K store operations in Hong Kong, Malaysia, Indonesia, Singapore, The Philippines, Brunei, South Korea, Taiwan and mainland China. The first joint venture store was opened in Hong Kong in June, 1985.

We now license 221 Circle K stores in Japan under agreement with The Uny Company. The stores are primarily in the Nagoya, Tokyo and Yokohama areas.

The conversion and modernization of our stores are continuing on schedule. We have virtually completed the sign conversion of the 960 UtoteM stores and the former Little General stores

Chairman Karl Eller (Left) and President Robert E. Hutchinson

will bear Circle K identification by the end of August, 1985. The objective of these programs is to more clearly identify Circle K store locations. A remodeling program is underway to make our stores a more inviting and more convenient place to shop. We've brightened the interiors, relocated the checkout counters for easier customer access and better visibility of the store by clerks. We've increased outside lighting for safety purposes, added a broader fast food selection and upgraded the stores' product mixes. Other modifications to lower energy costs have been incorporated in the interior designs.

Where possible we build our stores with the distinctive tri-color facia and the standarized store configuration. In some areas, cities require a more customized look; in those cases the exterior design is modified to be more compatible with surroundings. An example of a semi-custom treatment is shown on page 4 of this report.

As a convenience for our customers, we've added several new services and are continuing to experiment with others. There appears to be a developing market for the rental of video cassette movies. During a recent test in Arizona, we discovered sufficient customer demand for cassette movies to warrant negotiating agreements with several distribution firms to supply us with cassettes. This program is detailed on page 10.

In February, we began testing a debit card program in Arizona. After a successful test, we have launched the "QuickCash" debit card program in 300 stores in Arizona. We feel this program, explained in depth on page 7, will enhance gasoline sales and increase customer traffic.

We're continuing to improve an already strong balance sheet. During fiscal 1985 we completed two separate sale and leaseback agreements covering an aggregate 254 stores. Under those agreements, we sold the land and store buildings then leased them from the buyers on long-term contracts. Proceeds from such sales are used to finance expansion of the system and to supplement the Company's working capital. Internally generated working capital continues to be sufficient to meet our foreseeable needs. Our capital expenditures program for fiscal 1986 calls for investing approximately $140,000,000 into the improvement of our facilities, primarily the remodeling and upgrading of stores.

Continued growth and improved earnings are our primary objectives for the future. To accomplish those goals, we will continue to expand the Company by acquisition and by building new stores in the most favorable locations we can find. We intend to improve earnings by constantly seeking ways of reducing costs, utilizing economies of scale gained through expansion and by managing our operations to the best of our abilities while still providing our customers with convenience, an expanding array of services and a product mix which serves the needs of the majority of our present and potential customers.

We'll serve the public better through motivated employees. We've improved and accelerated our employee training program so as to put a better qualified employee behind the counter and in touch with our customers. An incentive program which rewards good employees is in place and is the keystone around which our efforts to improve the caliber of our employees is built.

We think Circle K has made tremendous strides and we're proud of our progress. The value of your investment has tripled during the past three years and we're proud of that. We feel the Company's earnings can continue to grow at its present pace or better over the next several years.

Our optimism entering fiscal 1986 is at an all-time high and we believe Circle K can look forward to another year of outstanding growth and operating results.

Sincerely,

Karl Eller

Karl Eller
Chairman

Robert E. Hutchinson

Robert E. Hutchinson
President

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Circle K Corporation and Subsidiaries

Results of Operations

Circle K acquired UtoteM in December 1983 and the Little General stores in October 1984, and, accordingly, the selected financial data includes operating results from those dates, respectively. Sales, earnings and other operating results were materially enhanced by the inclusion of the 960 UtoteM stores and the 435 Little General stores.

The following table sets forth, for the periods indicated, certain selected operating data for Circle K, as a percentage of total sales.

	Percentage of Sales		
	Fiscal Year Ended April 30		
	[illegible]	1984	1983
Grocery and other product sales	[illegible]	62.9	61.6
Gasoline sales	[illegible]	37.1	38.4
Total sales	[illegible]	100.0	100.0
Cost of sales	[illegible]	75.9	76.8
Gross profit	[illegible]	24.1	23.2
Operating and administrative expense	[illegible]	20.0	20.0
Operating profit	[illegible]	4.1	3.2
Interest and debt expense	[illegible]	(.8)	(.8)
Income (loss) from Nucorp	[illegible]		(.5)
Other income and expense, net	[illegible]	.6	.8
Total other income and expense	[illegible]	(.2)	(.5)
Earnings (loss) before Federal and state income taxes	[illegible]	3.9	2.7
Federal and state income taxes	[illegible]	1.8	.7
Net earnings (loss)	[illegible]	2.1	2.0

Fiscal 1985 Compared with Fiscal 1984

Sales for fiscal 1985 again reached all time record levels, increasing 63.5% over the previous fiscal year. Sales for this period were significantly enhanced by the acquisition of 435 Little General stores in October 1984 and the inclusion for the full period of 960 UtoteM stores, acquired in December 1983. The Little General and UtoteM operations represented 54.0% of the increase between periods. Gasoline sales increased 54.9% over the prior fiscal year, of which 45.6% resulted from the Little General and UtoteM acquisitions. In addition to acquisitions and internal development of new stores, sales gains also resulted from inflation and from growth derived from increased advertising, increased sales of fast food products and competitive pricing.

Gross profits as a percentage of sales was 25.5%, as compared to 24.1% for the prior year period. The increase in gross profit margin resulted primarily from increased sales of fast food products which have a high margin and from an increase in the gasoline gross profit margin.

Operating and administrative expenses as a percentage of sales increased over the prior year period due primarily to increased labor related costs and, to a lesser extent, because the operations of the Little General stores have not yet been fully integrated into Circle K's operations. Beginning May 1, 1985, the Little General stores are being fully integrated into the Circle K's operating and inventory control systems through the establishment of a regional administrative structure. At that time, management expects to begin reducing administrative expenses associated with Little General and anticipates benefits and savings to be realized by supplying Little General stores with Circle K-produced sandwiches and fast food products, from volume purchases of inventories and from other economies of scale.

Interest and debt expense for the twelve months ended April 30, 1985 rose approximately $13.8 million over the prior year period principally due to the additional debt incurred to finance the acquisitions of UtoteM and Little General, new store construction and remodeling.

Other income is comprised of interest, commissions earned from game machines, sales of money orders and lottery tickets, and royalty and other fees from Circle K's licensee in Japan. Other income rose approximately $.79 million over the prior year period principally due to interest earned on the deferred interest promissory notes arising from the sale and leaseback of 370 UtoteM stores effective April 30, 1984 and due to growth from acquisitions described above.

The effective income tax rate of 43.4% for the twelve months ended April 30, 1985, was lower than the 46% Federal statutory rate and lower than the effective income tax rate of 46.4% for the prior year period due primarily to investment tax credits.

Net earnings for the twelve months ended April 30, 1985 increased 54.3% over the prior year period primarily due to the acquisitions of UtoteM and Little General.

The increase in fully diluted earnings per share of 24.7% for the twelve months ended April 30, 1985 was less than the net earnings increase due to the increase in the weighted average shares outstanding from sales and other issuances of Circle K Common Stock and due to the effect of the convertible subordinated debentures, convertible preferred stock and common stock warrants.

Fiscal 1984 Compared with Fiscal 1983

Sales reached a record level in fiscal 1984, increasing 37.6% over fiscal 1983. The operations of UtoteM acquired in December 1983 were responsible for 26.0% of the increase in fiscal 1984. In addition to the acquisition of UtoteM's 960 stores and the construction of 10 stores, average sales per store gains were realized from inflation and growth. Growth is attributed to competitive pricing of price sensitive products, the expansion of fast food product lines, an improved economy in certain marketing areas and increased advertising. Gasoline sales increased 33.1%, of which 22.0% resulted from the UtoteM acquisition. Gasoline sales as a percentage of total sales dropped as a result of a reduction in the retail selling price of gasoline.

Gross profit, excluding gasoline, increased over fiscal 1983 as a result of increased sales of fast food products, which are high margin products and which include fountain drinks, Circle K-produced sandwiches and snack items. Gasoline gross profit increased over fiscal 1983, although it was not as high as in fiscal 1982.

Operating and administrative expenses as a percentage of sales remained constant between years.

Interest and debt expense increased $2.3 million in fiscal 1984 compared to fiscal 1983 primarily as a result of increased borrowings to consummate the UtoteM acquisition.

As a percentage of sales, in fiscal 1984, other income was lower primarily as a result of reductions in commissions earned from video games and in interest income from short-term investments of cash.

The effective income tax rate of 46.4% for fiscal 1984 was somewhat higher than the 46% Federal statutory rate due to the effect of state income taxes, net of Federal income tax benefits.

Net earnings increased 42.9% in fiscal 1984 primarily as a result of the UtoteM acquisition. Net earnings as a percentage of sales increased to 2.1% in fiscal 1984 from 2.0% in fiscal 1983 due to the improvement in the overall gross profit margin. The increase in net earnings in fiscal 1984 over 1983 would have been higher, except that the fiscal 1983 earnings were enhanced by a lower effective income tax rate of 26.0% resulting from the tax benefit recognized from the sale of Nucorp stock (see Note 14 of the Notes to Consolidated Financial Statements).

The increase in fully diluted earnings per share of 27.8% in fiscal 1984 was lower than the increase in net earnings due to the increase in the weighted average number of shares outstanding from sales and other issuances of Circle K Common Stock and due to the effect of the 9% Convertible Subordinated Debentures sold in October 1983 and the Convertible Preferred Stock issued in December 1983.

Liquidity and Capital Resources

(in thousands, except ratios)	1984	1983
Current Assets	$119,631	$74,246
Current Liabilities	$ 99,637	$54,280
Current Ratio	1.20	1.37
Long-Term Debt (including capital leases)	$157,007	$40,548
Redeemable Preferred Stock	$ 50,000	—
Stockholders' Equity	$ 91,567	$68,474

Liquidity represents a company's ability to generate sufficient cash flow to meet short and long-term requirements. Due to the nature of Circle K's business, most sales are for cash, and receivables arising from operations are rapidly converted to cash.

Working capital increased to approximately $60.7 million at April 30, 1985 from approximately $20.0 million at April 30, 1984, and the current ratio increased to 1.53 at April 30, 1985 from 1.20 at April 30, 1984. The changes in Circle K's working capital and current ratio during these periods are attributable primarily to Circle K's investment in store properties, through acquisitions and new construction. Newly constructed or acquired stores are held for sale and classified as current assets until sold. At April 30, 1985, approximately $32.2 million of store properties were classified as current assets as properties held for sale. Under its revolving credit agreement, described below, Circle K is required to maintain a minimum current ratio of 1.25.

Capital expenditures for property, plant and equipment for the three-year period was $90.8 million in 1985, $56.9 million in 1984 and $18.9 million in 1983 (exclusive of the Little General and UtoteM acquisitions in fiscal 1985 and 1984, respectively). During fiscal 1985, Circle K increased its capital expenditures by accelerating the remodeling of older stores, the acquisition of new store sites with emphasis on corner lots, and the changeover in the identification of the UtoteM and Little General stores. The changeover in identification for the UtoteM and Little General stores is substantially complete. Circle K plans to finance these expenditures with internally generated funds and bank borrowings.

Circle K's policy has been to limit its investment in land and buildings by entering into sale and leaseback agreements or leasing arrangements for substantially all of its stores and other properties. Circle K's belief is that, in this manner, its capital may be more profitably employed in store operations and that these leases are valuable assets and integral components of its operating plan. On March 1, 1985, Circle K sold 122 of its Little General stores for $38.4 million cash and leased the stores back for a 15-year primary term, with two ten-year renewal options. The lease rentals escalate annually at a fixed rate. The proceeds of the sale were used by Circle K to reduce bank debt and for general corporate purposes. On April 25, 1985, Circle K sold 132 stores for approximately $39.0 million cash and leased the stores back for a 15-year primary term, with three five-year renewal options. The lease rentals escalate annually at a fixed rate, subject to a one-time market rate adjustment at the beginning of the first renewal period. The proceeds of the sale (net of selling expenses of approximately $400,000) were used to pay approximately $14.0 million of short-term debt, $2.0 million of long-term debt and approximately $6.5 million of estimated costs to complete stores under construction at the date of the sale and leaseback, with the balance of approximately $16.0 million being used for working capital purposes.

Circle K considers its cash flow adequate to satisfy its daily working capital needs. To provide for any temporary short-falls in working capital, Circle K had at April 30, 1985 $85.0 million available in unsecured lines of credit and similar agreements with interest rates approximating prime, as determined by the participating lending institutions at the time of borrowing. The revolving credit agreement described below restricts the level of short-term borrowings under these lines of credit to $50 million. At April 30, 1985, there were no amounts outstanding under these lines.

In addition to the $85.0 million unsecured lines of credit and similar agreements, Circle K has a $150.0 million revolving credit agreement under which $100.0 million was outstanding at April 30, 1985, which amount was repaid on May 30, 1985 as more fully described in Note 6 of the Notes to Consolidated Financial Statements. Circle K intends to use the revolving credit agreement to fund the cash portion of the purchase price of the Shop & Go acquisition described in Note 2 of the Notes to Consolidated Financial Statements. Borrowings under the revolving credit agreement and issuances of convertible subordinated debentures in October 1983 and in October 1984 were used to fund the acquisitions of UtoteM and Little General as well as a portion of Circle K's expansion program. Circle K expects to continue using bank borrowings, sale and leaseback transactions and issuances of securities to fund its expansion program, since Circle K believes sales and earnings performance can be enhanced by this strategy.

October 1985

Everybody's happy so far. That's saying a lot. As of now, Circle K has over 3,100 stores. They've almost tripled the number ot stores they keep open in just two years. Lots of stores apparently makes them happy, and who is to quibble with happiness? They climbed to second place in the Dollars Per Day Survey this year. They even bought out the first place company. So far things appear to be going right, even though I don't understand what I see.

Besides the management of Circle K, lots of other people are happy. The management of General Host is happy. They received almost 20 times after tax earnings for Little General Stores. Carl Lindner is happy since his American Financial booked approximately 131 million in pretax gains from the sale of UtoteM to Circle K in 1983. American Financial struck gold again with a pretax gain of 12.7 million on the sale of Circle K stock to Circle K's Chairman Karl Eller in 1984. I doubt that Circle K is finished spreading happiness and money around yet. I wonder if it will make Pete Van Horn happy when they try to reward National Convenience Store stockholders.

Surely there is magic somewhere in the formula, but I can't see the synergy. Even though there is a slight dip in DPD figures, so far the reports don't signal major troubles. Can you really pay new store prices for old stores and make big returns? I wonder what they plan to do to Shop & Go's operation to make adequate returns on their investment. Obviously they must have discovered some retailing magic others in this business have overlooked.

Circle K is obviously the most exciting company in the convenience store business. This is the stuff of legends. They've taken an industry that was faltering and have breathed new life into it. Wait for the next exciting purchase!

HISTORICAL SUMMARY: NATIONAL CONVENIENCE STORES

Data Taken from the Annual Report
and 10 K for the Year Ended June 30, 1985

	1ST SURVEY	5TH SURVEY	10TH SURVEY	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY
					YEAR ENDED			
	6/30/70	6/30/74	6/30/79	6/30/80	6/30/81	6/30/82	6/30/83	6/30/84
NATIONAL CONVENIENCE STORES								
Houston, Texas								
Number of Stores	487	801	817	832	922	1,012	1,081	1,130
Store Growth in Year	31	-7	11	15	90	90	69	49
Store Days	172,113	292.365	296,192	305.578	320.060	352,910	383,019	403,484
Sales per Day	$418	$552	$1,036	$1,142	$1,298	$1,214	$1,367	$1,393
Sales Growth $DPD	$+57	$+121	$+117	$+106	$+156	$-84	$+153	$+26
Pretax Profit $DPD	$7.07	$5.87	$44.88	$54.61	$60.49	$65.03	$75.75	$58.33
After Tax Profit $DPD	$4.41	$4.30	$27.18	$33.31	$38.07	$40.31	$48.16	$38.43
Store Closures	10	71	28	42	73	92	35	44
Gasoline Units	35	282	446	478	585	695	775	824
$DPD Ranking	6/10	12/13	3/13	3/12	4/11	2/12	2/11	3/9

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 1,130 stores in eleven Sun Belt states on June 30, 1985, primarily under the names of "Stop 'N' Go, Hot Stop, Shop 'N' Go, and Colonial." 60% of all the stores are in Texas. 29% of the stores are in Houston.

1. The annual report states that store sales were $561,900,000.
2. Store Days:
   Store days of stores open all year: 1,081 × 365 = 394,565
   Store days of new stores figured for 1/2 year only: 49 × 182 = 8,918
   Total store days: 403,483
3. Sales per Store per Day:
   Store sales of $561,900,000 divided by 403,483 store days equals average sales of $1,393 per store per day for the year.
4. Pretax Profit:
   Pretax profit of $23,538,000 divided by 403,483 store days results in a pretax profit of $58.33 per store per day.
5. After Tax Profit:
   After tax profit of $15,509,000 divided by 403,483 store days results in an after tax profit of $38.43 per store per day.
6. New stores planned: 130 new stores are planned for this year.
7. Gasoline is not included in the sales figures.
8. The company figures its own income per store. Their figures show after tax $DPD per day per store to be $38.63.
9. Expects to have about 1,400 stores with store sales of $899,000,000 and earn $59,000,000 in pretax dollars by the end of fiscal year 1987. They would thus operate 511,000 store days. Store sales would average $1,759 per store per day and pretax earnings would be $115,46 per store per day (announced in their 1984 annual report).

To Our Shareholders:

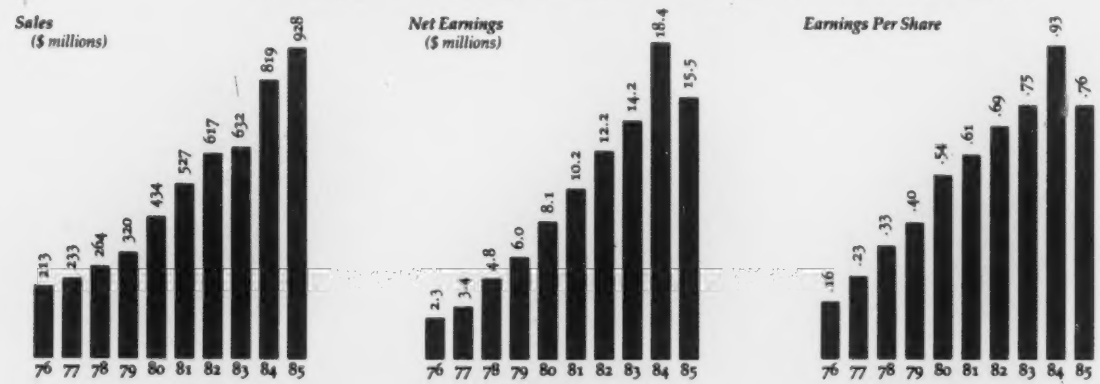
Our financial results for the year ended June 30, 1985, interrupted the string of profit increases our Company has maintained for almost ten consecutive years. However, very few companies have equalled the NCS record and we continue to be optimistic about the future.

In spite of our disappointing results, this, our 25th year in the convenience store business, was one of achievement and of positioning the Company for future growth. NCS made great strides in its store design program and we added several key players to our management team. Management's energies continue to be directed toward attaining the Company's revenue and earnings targets.

For the year ended June 30, 1985, sales climbed to $928 million, up 13 percent from $819 million a year ago. However, net earnings declined to $15.5 million, or $.76 per share, down 15.9 percent from $18.4 million, or $.93 per share, in fiscal 1984. Merchandise sales increased to $562 million from $524 million the previous year. Gasoline sales increased to $366 million, compared with $295 million a year ago. Gasoline gross margins averaged 8.0 cents per gallon for fiscal 1985, compared with 6.7 cents per gallon in fiscal 1984. Return on beginning shareholders' equity was 17.8 percent for this fiscal year, compared to 24.8 percent last year.

The year began well. Earnings per share were up 20 percent for the first quarter. By the end of the third quarter, however, year-to-date earnings per share had declined five percent from the comparable period the year before. This decline is primarily attributable to the deterioration of the Houston market, where 29% of our stores are located.

Sales trends in Houston declined steadily in the first two quarters and sharply in the third, which seasonally has always been our weakest quarter. Although Houston sales showed some improvement in the fourth quarter over third quarter levels, earnings



suffered because of comparatively lower sales coupled with higher advertising and promotional expenses.

The problem in Houston, as we see it, is two-fold. First, the city has experienced an economic recession, which started in 1983 due to the slump in the energy industry. As a consequence of the contracting economy, vacancy rates in office, commercial and residential properties soared, and new construction slowed down considerably. This caused a substantial increase in unemployment among our core blue-collar customers, many of whom reacted by leaving Houston to find work in other areas. At the same time, the competition in the Houston market increased with more competitors chasing after fewer customers, eventually leading to pressure on profit

margins. One dimension of this increased competition arose as a consequence of the glut in retail space. Developers, eager to lease this empty space, offered cheap rents to independent operators. While we ultimately expect most of these stores to be marginal in nature, in the short-term their presence compounds our problem in this market. Second, added to a troubled economic environment, we have also had management problems in this division. The result of these conditions has been weak sales and profit trends in Houston.

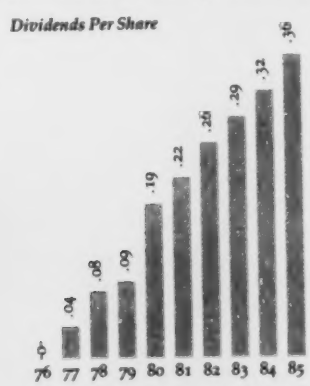
We took stock of the situation and our position, and although we have no control over the Houston economy, took decisive action to address those factors over which we do have control.

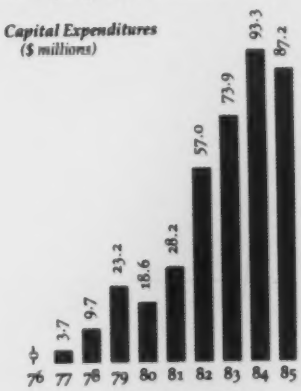
A strong new management team has been installed to run our operations in this challenging market.

During the fourth quarter, we introduced an employee incentive program based on sales gains, increased our advertising and promotion expenditures and, at the same time, set aggressive cost reduction targets. We believe our new managers will impact our operating results by ensuring that we run the most effective and efficient stores possible, and by focusing on cost control and innovative marketing techniques. These efforts, coupled with our new stores, should position us for long-term growth in the Houston market.

In the short-term, it is likely that sales and profits in Houston may continue to be somewhat eratic despite recent improvements, and we expect the first part of our new fiscal year to be particularly challenging when compared to the prior year. However, this is an important market to us, we have made a strong commitment to address our problems, and we intend to maintain our position within the Houston area.

In the long-term, we believe Houston to be an extremely vibrant, viable retail market. The city is the fourth largest in the country and is projected to have





favorable future employment trends as plans for the diversification of the city's energy-based economy take shape.

Sales were strong elsewhere in our Sunbelt cities. NCS will continue to capitalize on these growing markets through increased sales in existing stores and through new store development.

Despite our disappointing earnings, many positive steps were taken during the fiscal year.

Last September the Board of Directors increased the annual dividend and also declared a 5 for 4 stock split, which was distributed in the form of a dividend on October 15, 1984. This distribution increased issued and outstanding shares from approximately 15,660,000 to 19,575,000.

On May 13, 1985, the Company announced it had formed a leveraged Employee Stock Ownership Plan.

and enhancing the quality of life wherever we do business. NCS was again proud to be a national corporate sponsor of the March of Dimes for which our employees raised $350,000. I am personally honored to be serving as campaign chairman for United Way's 1985 Gulf Coast campaign and NCS has been selected as a Pacesetter company in this campaign, leading the community in a very special way. The Company is also actively involved in a multitude of other charitable, civic, and cultural endeavors.

In last year's annual report, I outlined a plan by which we expect to double fiscal 1983 net earnings of $14.2 million by fiscal 1987. Reaching our goal, admittedly, will be difficult but by no means impossible. We have to focus on the following in order to make sure we achieve our goal:

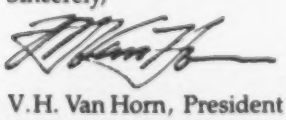
- *Accomplish a significant turnaround in earnings in Houston,*
- *Continue to enjoy favorable operating results in our other geographical markets, and*
- *Meet our targets for construction of our highly productive new Hex stores.*

In conclusion, the economic environment in which we now operate is fundamentally different from the high inflationary one of the past few years. Disinflation has a diminishing effect on dollar sales comparisons at a time when inventories and many elements of expenses are still increasing in dollar terms at rates conditioned by the previous levels of inflation. We therefore need to address the cost side of our business, calling on the management group we have assembled to focus their unique talents on the areas of cost containment and productivity, as well as growth.

Even though fiscal 1985 was a difficult and challenging year, we are optimistic about the current state of affairs at NCS. We believe present and future demographics favor our industry, especially within our Sunbelt markets. During fiscal 1986, we expect to pass

the $1 billion mark in sales and we have a fine management team in place who will ensure the achievement of our earnings targets. We believe that the past year will represent only an unfortunate interruption in our trend of profit increases. We are determined to rekindle pride in our accomplishments and to maintain your confidence in us.

Sincerely,



V.H. Van Horn, President and Chief Executive Officer
September 10, 1985

DEVELOPING THE $2 BILLION ORGANIZATION

National Convenience Stores will pass the $1 billion sales mark in fiscal 1986. During the past year, we intensified our efforts to build an organization capable of taking NCS to the $2 billion sales level and beyond.

The challenges we face, moving forward, go beyond those of sheer size. NCS is evolving from the "old business" of the convenience store industry because that style of business will become obsolete over time. The old business historically is represented by smaller, middle-of-the-block locations serving a primarily male, blue-collar customer base.

The "new business" consists of larger stores located on prime retail corners. These stores generate significantly higher sales and profits by selling an expanded product line to an enlarged customer base that includes women and white-collar workers as well as the traditional blue-collar customers. These stores are designed differently, merchandised differently, and they must be operated differently to achieve their full potential. They compete more directly with drug stores and major oil company locations.

This requires an insightful management team that understands both its present and future customers and competitors. That same team also must be able to recognize and retain the best of the old business while initiating those changes required by the new business. And that is what we have developed.

The *corporate development* function at NCS involves both acquisition of existing convenience store operations and internal development of new stores. Tom Ewens, who had risen during a 16-year career at NCS to the position of senior store operations executive, was promoted in October 1983 to senior vice president-corporate development. He was given the task of increasing our rate of new store openings from the prior level of 40–45 per year to well over 100 per year.

Tom Ewens

Randy Wortham

Jerry Welch

Randy Wortham, formerly of Gulf Oil, was recruited as vice president-real estate. He brings to NCS a strong background in multi-unit operations, in the gasoline business, and in real estate and construction. Our field site selection and development staff also have been strengthened substantially to enable NCS to achieve quality growth at high levels.

These human resources are a key element in the Company's drive to substantially increase the rate of new store openings. The impact of these people is becoming evident, with 84 new stores opened in 1985 versus 46 in 1984. The target for 1986 is 130 new store openings. This is an aggressive goal, but one that is within the grasp of this talented team.

The Company's *store operations* group is organized into four operating divisions, each headed by a division vice president. Each division also has an operations manager, a personnel manager, a marketing manager, and their associated staffs. Jerry Welch, formerly the Company's vice president-finance, was appointed senior vice president-stores in October 1983. He spent much of the last year strengthening his organization.

Charles "Tex" Spear was brought in as vice president and manager of our Gulf Coast division, which includes the Houston operation. Mr. Spear is a seasoned retail executive with many years of experience in the Houston market. He formerly was vice president and general manager of Eckerd Drugs' Southwestern operations. Jerry Comstock, who joined NCS as a store manager immediately after college, is a top performer who has moved up rapidly through our operating organization. In June 1985, he was promoted to vice president of our West Texas division.

New division operations managers, marketing managers, and personnel managers were recruited to strengthen the divisional staffs as needed. Some of these people were already in the convenience store industry and others were in related industries. All represent an enhancement of our capability in their particular functional area.

At the corporate level, NCS has built a strong group of talented people responsible for the Company's overall *marketing and merchandising* direction, including store design and advertising. Charles Jones joined NCS during fiscal 1985 as vice president-marketing. Mr. Jones is a graduate of Harvard Business School and previously was a partner with McKinsey and Company. Mr. Jones has extensive experience in the packaged goods, supermarket and convenience store businesses, and he brings strong, fact-driven leadership to our corporate marketing team.

Charles "Tex" Spear

Jerry Comstock

Charles Jones

A rapidly growing multi-unit retailer needs a strong *finance* function to provide good operating information and tight controls as well as financing for acquisitions and new store development. During fiscal 1985, the Company's financing capabilities were enhanced by the addition of Mike Kearney as treasurer. Mr. Kearney formerly was assistant treasurer of Superior Oil.

The result of these organizational development efforts is a management team that combines many years of convenience store industry experience with insights from related retailing sectors such as drug stores and petroleum products marketing.

This developmental process has been time-consuming, expensive, and occasionally disruptive. The process, however, is now complete. We enter fiscal 1986 with a management team second to none in the industry.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations:

The following table indicates the percentage which items in the Consolidated Statements of Earnings bear to sales and their percentage change over the preceding years.

	Percentage of Sales Year Ended June 30			Year to Year Percentage Change		
	1985	1984	1983	1985 vs. 1984	1984 vs. 1983	1983 vs. 1982
Sales	100.0%	100.0%	100.0%	13%	30%	2%
Cost of sales	73.7	73.0	71.4	14	32	1
Gross profit	26.3	27.0	28.6	10	22	7
Operating expenses	17.2	16.8	18.0	16	21	6
General and administrative expenses	4.5	4.8	5.4	5	17	1
Interest expense	2.1	1.8	1.6	29	50	30
Earnings before income taxes	2.5	3.6	3.6	(19)	26	19
Income taxes	.8	1.3	1.4	(24)	21	22
Net earnings	1.7%	2.3%	2.2%	(16)	30	17

The 13% increase in sales was primarily due to a 6% increase in the average number of stores in operation during 1985, NCS' continued emphasis on fast food and nonfood products and competitive pricing on price-sensitive, high volume products. The increase in sales was less than the 30% increase experienced in 1984 principally due to the prolonged economic recession encountered in the Houston area markets and the declining impact of the 125 stores acquired in the fourth quarter of 1983. Average sales per store were $841,000 in 1985, $783,000 in 1984, and $715,000 in 1983, reflecting gains of 7.4%, 9.5% and 3.8%, respectively.

	1985	% Gain	1984	% Gain	1983	% Gain
	($ and gallons in millions)					
Merchandise sales	$561.9	7.3	$523.7	22.2	$428.6	3.2
Gasoline:						
Sales	$365.6	23.8	$295.3	45.0	$203.7	.8
Gallons sold*	385.1	24.2	310.0	33.9	231.6	7.0

*Includes gallons sold on a commission basis of 44,474,000, 44,472,000 and 44,300,000, respectively.

The volume of gasoline sold has improved each year as a result of NCS' competitive pricing of gasoline products, the continuous upgrading of gasoline facilities, and an increase in the number of stores selling gasoline.

The gross profit percentage has decreased during the past two years due to competitive pricing and the increase of lower margin gasoline sales as a percentage of total sales. The average per gallon margin in gasoline sales was 8.0 cents, 6.7 cents and 6.2 cents for each of the last three years, respectively.

General and administrative expenses as a percentage of sales were comparable to 1984 due to the continued benefit of expense control programs initiated in the second half of fiscal 1983. In 1985, higher operating expenses as a percentage of sales were attributable to increases in payroll, inventory losses, and depreciation, offset by an increased percentage of total sales represented by gasoline sales, which have lower operating costs. The reduction of 1984 operating expenses as a percentage of sales was due primarily to the increased percentage of total sales represented by gasoline sales.

NATIONAL CONVENIENCE STORES

EDITORIAL COMMENTS ON THE NATIONAL CONVENIENCE STORES ANNUAL REPORT

October 1985

I commend National Convenience Stores for the clarity of their report. The figures are presented forthright and are easy to analyze on a Dollars Per Day basis. Each year they analyze their after-tax earnings on a per store basis, and their computations match ours. They have one of the better reports in the business.

I quarrel with their perception of their management team's talent and with their analysis of their current problems. I'm sure they think they gave us an honest appraisal and a straight forward assessment of their people and their prospects, but I suspect they are self deceived.

They have presented a dazzling collection of management portraits. These boys could make it in banking or on Wall Street. I was nauseous after reading several pages of remarks about the "several key players added to the team," "an insightful management team," and "an enhancement of our capability." I'm pleased they are entering 1986 with "a management team second to none in the Industry," but why aren't their store sales up, and why are their profits down?

Apparently this strong group of talented people never go near their stores unless they call ahead. The "strong design statement" and their strategic planning never hit me when I visit their store units. Fortunately, gasoline margin hit 8 cents a gallon in 1984 and average gallonage increased per unit so that total gasoline margin increased over ten million dollars last year. Surely this talented management team knows they won't always be able to make 8 cents a gallon gasoline margins.

I can't resist commenting on their demographics. If you've studied the convenience store market, it doesn't take much insight to know they aren't really going to attract gourmet coffee drinkers. No investor should trust a management that thinks it's important for a blind newsstand "to offer coffee brewed from beans ground fresh in the store everyday."

My advice, guys, is to take off the dark suits and go out and visit your stores. You're out of touch with reality. Forget about strategy and devise some tactics that will help you execute better. You need to run better stores.

HISTORICAL SUMMARY: SOUTHLAND CORPORATION

Data Taken from the Annual Report
and 10 K for the Year Ended December 31, 1984

	1ST SURVEY	5TH SURVEY	10TH SURVEY	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY
					YEAR ENDED			
	12/31/70	12/31/74	12/31/79	12/31/80	12/31/81	12/31/82	12/31/83	12/31/84
SOUTHLAND CORPORATION **Dallas, Texas**								
Number of Stores	3,734	5,171	6,805	6,895	7,002	7,165	7,299	7,473
Store Growth in Year	197	370	206	90	107	163	134	174
Store Days	1,327,056	1,820,075	2,446,127	2,507,100	2,535,749	2,585,396	2,639,613	2,703,276
Sales per Day	$564	$708	$1,087	$1,219	$1,394	$1,532	$1,636	$1,773
Sales Growth $DPD		$+55	$+137	$+132	$+175	$+138	$+124	$+117
Pretax Profit $DPD	$17.15	$25.45	$38.42	$46.44	$60.67	$59.34	$55.58	$50.80
After Tax Profit $DPD	$8.50	$12.64	$28.13	$27.05	$34.17	$33.97	$39.46	$47.24
Store Closures	139	142	460	281	257	271	364	224
Gasoline Units	75	502	2,107	2,246	2,517	2,827	3,007	3,173
$DPD Ranking	3/10	6/13	7/13	4/12	3/11	3/12	5/11	4/9
Percentage of stores that sell gasoline	2.0%	9.7%	30.9%	32.5%	35.9%	39.5%	41.2%	42.5%

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 7,473 7-Eleven stores on December 31, 1984, in 41 states, the District of Columbia, and Canada, of which 4,634 were company-operated stores and 2,839 or 38% of the units were franchised.

1. The annual report states that 7-Eleven store sales, without gasoline, were $4,370,000,000 in 1983. The 1984 annual report states that 7-Eleven merchandise sales increased 9.7%. 7-Eleven store sales were thus $4,793,890,000.
2. Store Days:
   Store days of stores open year-round: 7,299 × 366 = 2,671,434
   Store days for new stores figured for 1/2 year only: 174 × 183 = 31,842
   Total Store Days: 2,703,276
3. Sales per Store per Day:
   Sales of $4,793,890,000 divided by 2,703,276 store days equals average sales of $1,773 per store per day for the year.
4. The annual report states that in 1984, 85.7% of the company's total operating profits were from the convenience retailing segment. Total pretax earnings for Southland were $172,314,000. If we assume that pretax earnings are in the same relationship as operating profits, the stores group pretax profits were thus $147,673,090. Historically, about 93% of the profit in the stores group is from 7-Eleven again. This year the report does not state the percentage. "Equity in earnings of affiliates and royalties from area licenses are included in the convenience retailing segments' operating profit." If we assume that 100% of the stores group profit was from 7-Eleven, the $DPD would be $54,63 ($147,673,090 divided by store days of 2,703,276). If we assume that 93% of the stores' group profits this year are from 7-Eleven, the $DPD would be $50.80 per 7-Eleven store (93% of $147,673,090 equals $137,335,970, which when divided by 2,703,276 7-Eleven store days equals $50.80). Since there are other store operations in the stores group, we have chosen the latter approach.
5. After tax profits for Southland are 93% of the pretax profits. Total after tax earnings for Southland were $160,252,000. If we assume that after tax profits bear the same relationship to operations as pretax profits, after tax profits for the stores group would be $137,335,960 (85.7% of $160,252,000). If 93% of the stores group after tax profits are from 7-Eleven, we have the following calculation of after tax $DPD profits: 93% of $137,335,960 equals $127,722,440 divided by 7-Eleven store days of 2,703,276, which equals $47.24.

Letter to Shareholders

For the 23rd consecutive year, Southland's revenues and net earnings reached record levels as the result of another outstanding performance by 7-Eleven and our other traditional operations. Revenues were up 37.5 percent to $12.11 billion, with a large part of the increase due to the inclusion of Citgo Petroleum Corporation's sales for the full year. Net earnings were up 21.6 percent to $160.3 million, even though Citgo results were adversely affected by the worst refining industry conditions in recent history.

Due to Citgo's tax benefits, which totally offset its operating loss including interest expense, the Company had an effective income tax rate of 7.0 percent, compared with 29.0 percent in 1983. Primary earnings per share were $3.41, up 4.6 percent, based on 16.3 percent more average shares outstanding as a result of the Citgo acquisition. Fully diluted earnings per share were $3.38, up 5.3 percent, with 15.4 percent more shares.

7-Eleven, our primary business, continued its strong growth pattern, with sales up 8.1 percent to $6.42 billion and profits that were substantially greater than the prior year. Merchandise sales in stores open more than a year were up 7.4 percent, resulting in real growth of 3.7 percent after inflation, meeting our goal of three to five percent real growth. Profitability was enhanced as merchandise gross profit margins strengthened and operating expenses remained under tight control.

7-Eleven self-serve gasoline sales and profits were also up significantly for the year. The stores continued to expand market share, with volume growing 6.8 percent to 1.45 billion gallons, and the average gross profit per gallon increased 18.6 percent. Gasoline is now available at 3,173 7-Eleven stores, 166 more than at the end of 1983. Southland's total retail gallonage, which also includes Quik Mart and Super-7 volume, increased to almost two billion gallons, further strengthening the Company's position as the largest independent gasoline retailer in the United States.

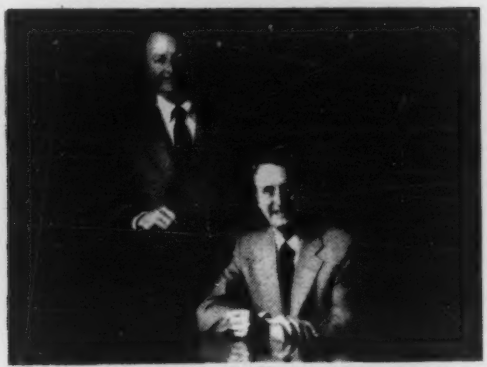
7-Eleven continued to add new stores across the nation, with emphasis on the fast-growing Sunbelt states. About 90 percent of these new stores are built on high-traffic corners, and today two-thirds of the 7,473 7-Eleven stores are on these more productive sites.

Southland's International Division continued its expansion at a brisk pace in 1984. At year-end, 3,457 7-Eleven stores and other retail units, 427 more than the prior year, were operated by area licensees or affiliates in the United States and 10 other countries. Our licensee in Japan again led the growth with a net addition of 308 stores for a total of 2,217 units.

We were especially pleased with Southland's participation as a major corporate sponsor of the Summer Olympic Games in Los Angeles, the focal point of the 7-Eleven 1984 marketing program. The Olympics sponsorship was an important first step of an ongoing sports marketing program which is designed to appeal to our major customer groups.

Also in 1984, Southland's Dairies Group reported the best sales and profits in its history. The Southland Distribution Centers, which serve 7-Eleven and other customers, had solid sales and profit increases. A fifth center, which will open in mid-1985 in San Bernardino, California, will supply 7-Eleven and other customers in a market area centered around southern California. Chief Auto Parts reported strong sales and its first profitable year. Chief ended the year with 337 stores and acquired an additional 101 locations in early 1985.

In spite of the adverse refining industry conditions which affected Citgo in 1984, we continue to believe that the acquisition has added a number of excellent and valuable operations to Southland's assets. Citgo's marketing and distribution organization, together with the Gasoline Supply Division, now supplies 95 percent of



John P. Thompson and Jere W. Thompson

7-Eleven's gasoline requirements and is increasing the efficiency of our retail gasoline operations. Even though industry conditions were very unfavorable in 1984, especially in the fourth quarter, Citgo's refinery operated at a high efficiency level. This resulted from a number of productivity measures instituted by Southland and from a half-billion-dollar upgrade program which was virtually completed prior to the acquisition. This program greatly increased the refinery's yield of high-value transportation products from a wide variety of crude feedstocks.

This increased efficiency, however, did not offset the effect of the deteriorating refined products market. In December, Southland took a number of steps to minimize the impact of industry conditions, including a temporary 46 percent cutback of the refinery's operating rate to 140,000 barrels per day and a reduction in the work force of 850 employees. At this production level, the refinery is utilizing its most efficient operating units and cost-effective feedstocks.

In December, we began construction on a new corporate office tower for Southland and smaller rental buildings which will comprise our headquarters complex. The 42-story highrise will enable the Company to consolidate its widely scattered Dallas office locations for maximum efficiency and will anchor the first phase of Cityplace, Southland's mixed-use land development immediately north of Dallas' central business district. Construction of a duplicate tower and office complex, also planned for phase one, will begin when sufficient tenant interest is indicated and satisfactory financing is arranged. Other phases of Cityplace will be developed during the next 10 to 20 years as market conditions warrant.

Southland's employees, franchisees, customers and suppliers again raised more than $5 million for Jerry Lewis' Muscular Dystrophy Association Labor Day Telethon, bringing our total collections to $35 million over the past nine years. The Southland family also raised $1.6 million for the March of Dimes "WalkAmerica" in April, and Southland Dairies again served as a major corporate sponsor for the "Mothers March on Birth Defects" in January.

Capital expenditures were $431.9 million in 1984, with 61.5 percent invested in continued expansion of retail operations and 9.4 percent for completion of the final portion of Citgo's refinery upgrade. Funds provided from operations approximated the amount of capital expenditures.

In recognition of Southland's record performance in 1984, the Board of Directors increased the 1985 dividend rate by eight cents, or 8.7 percent, to $1.00 per share. This represents the 10th consecutive year in which dividends have increased and the 29th year of dividend payments. The dividend payout will represent 29.4 percent of prior-year earnings, in line with the Board's 25 to 30 percent payout guideline. The first quarterly dividend will be paid March 22 to shareholders of record on March 1.

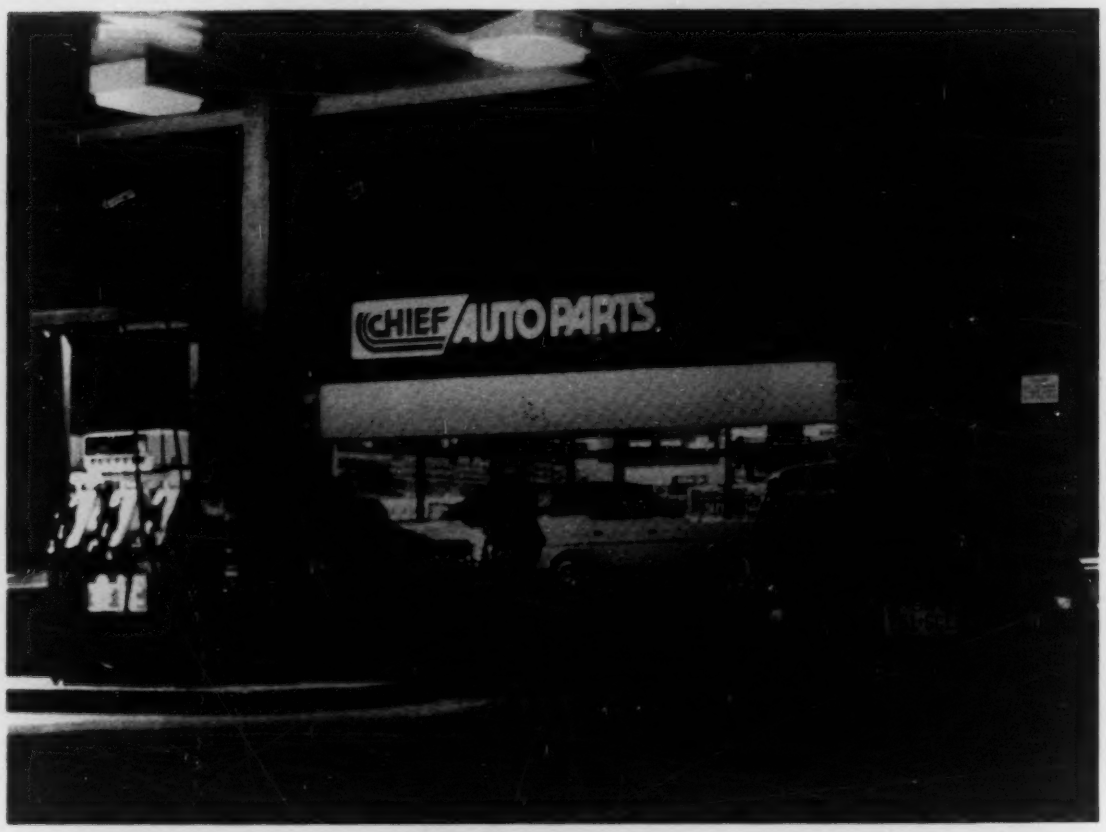
Your Company continues to operate from a strong financial position with substantial internally generated funds, extensive unused lines of credit and a balance sheet which benefited from the refinancing of Southland and Citgo debt in 1984.

We sincerely appreciate all of the contributions of our employees, franchisees and suppliers toward another record year, and we thank you, our shareholders, for your continued support.

John P. Thompson
Chairman

Jere W. Thompson
President

March 18, 1985



7-Eleven – America's Convenience Retailer.

Over half the U.S. population lives within two miles of a 7-Eleven. And with two-thirds of these 7,500 7-Eleven stores located on high-traffic corners, Southland's retail sites are unmatched in both quality and quantity.

To many millions of Americans, 7-Eleven *is* convenience retailing. The 7-Eleven sign is a familiar sight in neighborhoods all across the country, standing for 24-hour convenience, high-quality products and friendly, hassle-free service. 7-Eleven is many stores in one, providing busy, on-the-go customers with just about everything they need ... from fast foods, fill-in groceries and fountain soft drinks ... to magazines, gasoline and electronic banking ... and of course, 7-Eleven's own "Slurpee."

With more stores in operation than any other American retailer, 7-Eleven has developed a strong presence in virtually every major U.S. market. With this tremendous size and scope, 7-Eleven can efficiently utilize national advertising and product promotion ... independently develop new products to meet changing customer needs ... and realize the benefits of an extensive and unique merchandise distribution system, as

well as the other advantages provided by the many strengths of 7-Eleven and Southland.

To maintain its leadership position in convenience retailing and continue its growth, Southland has invested more than a billion dollars over the past five years to expand and modernize 7-Eleven and its supporting operations. During this period, almost 2,100 new 7-Eleven stores have been opened – with 90 percent of them positioned on highly productive corner sites. These prime, high-traffic locations boost sales, maximize the profit potential of high-margin items such as fast foods, and are highly suitable for self-serve gasoline.

7-Eleven's National Market Coverage

7-Eleven has market presence in 49 states, the District of Columbia and five provinces of Canada, with 7,473 Company-operated and franchised 7-Eleven stores and another 532 units operated by area licensees.

7-Eleven is experimenting with new concepts in store appearance and design. This is one of several test stores in Austin, Texas.

7-Eleven is the third largest seller of fountain soft drinks in America due to quality, convenience, value and selection. Only at 7-Eleven does a customer have a choice between Coca-Cola, Pepsi-Cola and four other fountain drinks.

7-Eleven leads the nation in automatic teller machines with units in 1,000 stores and agreements signed for installation of an additional 2,800 machines. The Company's goal is to provide this electronic service to customers at most 7-Eleven locations.

In addition to 7-Eleven, Southland operates 41 Super-7 stores, as well as 291 Quik Mart units. These 332 high-volume gasoline locations sold 497 million gallons in 1984. Both Super-7 and Quik Mart also sell a limited assortment of convenience merchandise.

Two-Thirds of 7-Eleven Stores Now on Corners

The Company opened 398 stores in 1984, with approximately 90 percent located on highly visible corner sites. Over 68 percent of all 7-Eleven stores are now on corners. During the year, 224 units were closed, for a net increase of 174 locations. Of the closed stores, 62 were relocated to better sites, while 162 were closed due to changing market patterns and lease expirations. At the end of the year, 7,473 stores were open in 41 states, the District of Columbia and five provinces of Canada, with 38 percent of the units operated by franchisees.

Marketing Targets Fast Food Audience, New Customer Groups

Southland moved aggressively in 1984 to attract customers from the 20 percent of the population that rarely shops convenience stores.

7-Eleven appealed to price-conscious consumers by increasing promotions of competitive pricing on such items as milk, cartons of cigarettes, soft drinks and case beer. The Company also made significant progress toward its goal of providing automatic teller machine (ATM) service to 7-Eleven customers across the country. Agreements were negotiated in 1984 for 2,120 units to be installed in 7-Eleven stores by financial institutions or third-party networks, for a year-end total of 2,800 planned installations and 1,000 units already in operation.

Convenience Retailing

The convenience retailing segment posted record sales of $7.71 billion, an increase of 13.0 percent over the prior year, and accounted for 64.4 percent of Southland's total sales. Operating profits were up 12.8 percent to $268.8 million and represented 85.7 percent of total operating profits.

Sales from the International Division's retail units are not reported as revenues of Southland. Equity in earnings of affiliates and royalties from area licensees are included in the convenience retailing segment's operating profit.

7-Eleven Posts Another Record Performance

7-Eleven sales increased 8.1 percent to $6.42 billion, representing 83.3 percent of the convenience retailing segment. Merchandise sales increased 9.7 percent. In stores open more than twelve months, merchandise sales increased 7.4 percent, with real growth of 3.7 percent after inflation – meeting the Company's goal of three to five percent real growth.

Merchandise gross margins, excluding amusement games, showed significant improvement over the prior year, a result of marketing emphasis on higher-margin products. In addition, increases in store operating expenses were held below increases in gross profit dollars, which produced good profit gains.

Retail Gasoline Volume Approaches Two Billion Gallons

Southland, the nation's largest independent gasoline retailer, sold 1.95 billion gallons in 1984 through 7-Eleven and other Southland self-serve outlets.

7-Eleven gallonage increased 6.8 percent to 1.45 billion gallons, continuing a decade of growth in market share while total gasoline consumption in the United States remained relatively flat. At year-end, gasoline was available at 3,173 stores or 42 percent of all locations. Total gross profit dollars increased substantially due to a 19 percent increase in gross profit per gallon, higher gallonage per store and the net addition of 166 gasoline locations.

Segment Operating Results

(Millions)	1980	1981	1982	1983	**1984**	**Five-Year Compound Growth**
Sales	$4,335.5	$5,187.2	$5,816.3	$6,820.7	**$7,707.3**	**17.2%**
Operating Profit	173.1	212.6	222.5	238.2	**268.8**	**14.0%**

Management's Review of Operating Results

The operating results in 1984 include Citgo for the full 12 months, compared with four months in 1983.

Revenues

Revenues (net sales of products and merchandise, including sales by 7-Eleven stores operated by franchisees, and other income) continued to establish record highs by increasing 37.5% to $12.11 billion in 1984. A large portion of this increase resulted from the inclusion of $3.88 billion in outside sales from operations acquired with Citgo, compared with $1.19 billion in 1983.

Revenues (millions)	1984	% Gain	1983	% Gain	1982	% Gain
Net sales:						
Convenience retailing	$ 7,707.3	13.0	$6,820.7	17.3	$5,816.3	12.1
Gasoline refining and supply	3,882.0	149.7	1,554.7	186.5	542.6	539.9
Food processing and manufacturing	443.6	12.1	395.8	(.3)	397.0	(5.7)
Corporate	2.0	114.7	.9	(10.0)	1.0	25.0
Total sales	12,034.9	37.2	8,772.1	29.8	6,756.9	18.7
Other income	70.1	112.9	32.9	29.4	25.5	(37.0)
TOTAL	$12,105.0	37.5	$8,805.0	29.8	$6,782.4	18.3

The convenience retailing segment accounted for 64%, 78% and 86% of total sales in 1984, 1983 and 1982. 7-Eleven volume in 1984, representing 53% of total sales, increased 8.1% to $6.42 billion, following gains of 12.1% to $5.94 billion in 1983 and 12.1% to $5.30 billion in 1982.

7-Eleven merchandise sales (which do not include amusement game revenues) were up 9.7% to $4.80 billion after increases of 12.5% and 11.9% in 1983 and 1982. These gains resulted from inflation, real growth of 3.7%, 3.4% and 4.4% in stores open more than one year, and the net addition of 174, 134 and 163 stores in 1984, 1983 and 1982. More efficient use of selling space, increased advertising, new products and services, and traffic-building competitive pricing of selected items, especially milk, case beer, carton cigarettes and soft drinks, contributed to the gains. Sales increases in 1984 reflected a slowing of the inflation rate in 7-Eleven's merchandise mix to 3.6%, down from 5.1% in 1983 and 5.4% in 1982.

Self-serve gasoline, the largest single product category in the 7-Eleven sales mix, was 24.8% of 7-Eleven sales in 1984, compared to 25.5% in 1983 and 25.3% in 1982.

7-Eleven Gasoline	1984	% Gain	1983	% Gain	1982	% Gain
Sales (millions)	$1,594.4	5.1	$1,516.6	13.1	$1,341.5	12.2
Gallons (millions)	1,454.4	6.8	1,361.2	17.7	1,156.1	20.9
Gross profit (millions)	$ 102.2	27.0	$ 80.5	11.7	$ 72.1	(1.3)
Gross profit per gallon	7.0¢	18.6	5.9¢	(4.8)	6.2¢	(18.4)
Number of stores	3,173	5.5	3,007	6.4	2,827	12.3

Gasoline sales increased in 1984, 1983 and 1982, despite lower retail prices, because total volume was up due to higher average gallonage per store and a larger number of stores selling gasoline. The rate of growth in gasoline gallonage was lower in 1984 primarily because the national demand for gasoline remained relatively flat. However, improved market conditions and the ability to maximize profits through marketing techniques resulted in a substantial increase in total gasoline gross profit.

In addition to the 7-Eleven stores with self-serve gasoline, the Company operates self-serve, high-volume retail gasoline units which also offer selected convenience items. At year-end, these included 41 Super-7 and 291 Quik Mart locations. Together, these units added 497 and 212 million gallons to total retail volume in 1984 and 1983. In 1982, the Super-7 locations added 59 million gallons to total retail volume.

Sales to outside customers for the gasoline refining and supply segment accounted for 32% of the Company's total sales in 1984, compared to 18% in 1983 and 8% in 1982. The increases in 1984 and in 1983 were due primarily to the acquisition of Citgo.

Other income (equity earnings of pipeline companies and of affiliates, interest income, area license royalties, net gains on sale of assets no longer used by the Company, and gain on redemption of debentures) is

October 1985

You need to know that I sold Southland's stock short at 25 last Spring and bought it back at 38 in late Summer. So much for my ability to analyze and judge their prospects.

As always, their record, their operations, and their statement are impressive. They do tend to overstate their innovative record and abilities. "Since that time, 7-Eleven has introduced nationally many products and services which are now industry standards, including 24 hour shopping, fountain drinks, hot coffee, money orders, and gasoline." This is a recurrent theme in Southland annual reports. Introducing them nationally is not the same as developing the concept. Hey boys, it doesn't have to be invented by you or be thought up in Dallas. It's okay to copy other people, but it's ungentlemanly to take credit for the development if you didn't do it first.

It should be noted that this is the third straight year of decline in 7-Eleven's profit per day per store. The declines haven't been dramatic, but 1981 dollars per day profit per store were 16% higher than 1984 profits. 7-Eleven has closed 859 stores since that time. I would speculate that profits from the replacement stores have been less than spectacular. I'd like to know if the concept is strong enough to make money from new store units.

Southland is a changed company since the Citgo acquisition. Results are heavily dependent upon the fortunes of the refining industry. They have given up part of their freedom. Overall, their last year would have been stronger without refining capability.

HISTORICAL SUMMARY: CASEY'S GENERAL STORES, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended April 30, 1985

Inventory Accounting: LIFO

	9TH SURVEY	10TH SURVEY	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY
				YEAR ENDED			
	4/30/79*	4/30/80*	4/30/81*	4/30/82*	4/30/83	4/30/84	4/30/85
CASEY'S GENERAL STORES, INC. **DesMoines, Iowa**							
Number of Stores	226	275	304	339	377	427	482
Store Growth in Year	—	49	29	35	38	50	55
Store Days		91,683	105,653	117,330	130,651	146,400	165,865
Sales per Day— Company Stores			$707	$736	$789	$806	$814
Sales Growth $DPD— Company Stores				$+29	$+53	$+17	$+8
Pretax Profit— All Stores $DPD			$4.14	$14.29	$22.67	$30.56	$44.75
After Tax Profit— All stores $DPD			$2.11	$9.98	$13.49	$16.03	$24.98
Store Closures				1	1	0	0
Gasoline Units					377	427	482
$DPD Ranking					8/12	8/11	5/9

*Data taken from the Preliminary Prospectus Dated 8-31-83.

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 482 stores in 8 Midwestern states on April 30, 1985. 250 stores were company operated and 232 were franchised. The stores are operated under the Casey's General Store name.

1. The annual report states that sales from company operated units were $67,577,550. No information is given for sales from the franchise units. Average daily sales as computed here and shown above are for the 250 company operated units only.
2. Store Days:.
   Company Units:
   Store days of stores open all year: 205 × 365 = 74,825
   Store days of new stores figured for 1/2 year only: 45 × 182 = 8,190
   Total store days: 83,015
   Franchise Units:
   Store days of stores open all year: 222 × 365 = 81,030
   Store days of new stores figured for 1/2 year only: 10 × 182 = 1,820
   Total store days: 82,850
   Total store days—all stores: 165,865

HISTORICAL SUMMARY:
CASEY'S GENERAL STORES, INC.
(CONTINUED)

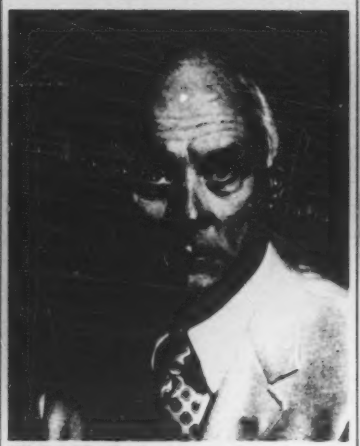
3. Sales per Store per Day:
   Store sales of $67,577,550 divided by 83,015 store days equals average sales of $814 per store per day for the year.
4. Pretax Profit:
   Pretax profit of $7,423,000 divided by total store days of 165,865 results in a pretax profit of $44.75 per store per day.
5. After Tax Profit:
   After tax profit of $4,143,000 divided by total store days of 165,865 results in an after tax profit of $24.98 per store per day.
6. Casey's became a public company in October 1983.
7. All Casey's stores sell gasoline. Above listed sales do not include gasoline sales.
8. The Company shows individual store information for stores open at least one full year:

	1984		1985		DPD
	Annual	Per Day	Annual	Per Day	Growth
Average Sales of Grocery & General	$304,029	$831	$310,735	$851	$+20
Average Gross Profits on Gasoline	36,917	101	41,997	115	+14
Average Operating Income Per Company Store*	44,422	121	48,369	132	+11

(*Before Corporate Expense)

TO OUR STOCKHOLDERS

Donald F. Lamberti
President



Walter J. Carlson
Secretary/Treasurer

Ronald M. Lamb
Vice President

We are pleased to report another record year of growth and achievement by the people of Casey's General Stores, Inc. In fiscal 1985, we once again attained record sales and profits. Revenues increased to $251.6 million as compared to $220.9 million in fiscal 1984, a 13.9% increase.

Net income for the year totaled $4,142,971 or $0.90 per share, compared to $2,347,199 or $0.60 per share in fiscal 1984. The year's earnings were 76.5% higher than the previous year. These numbers represent the largest sales and earnings gains for any 12-month period in the Company's history.

Much of our success during the past 12 months can be attributed to Casey's store expansion program, which met all projections. With the construction of 55 new stores, Casey's had a total of 482 retail operations as of April 30, 1985. More significantly, however, was the increased emphasis placed on the addition of Company-owned stores. We now have 250 Company stores and 232 franchise stores. This figure illustrates that we

have truly become a store operations Company. Additionally, during the past 12 months we purchased the two remaining 50% owned subsidiary companies, Impact Stores, Inc. and Centurion Sales Company, Inc.

In fiscal 1985, we also initiated two programs that will have a direct positive impact on earnings. We are now purchasing cigarettes directly from the manufacturers and stamping them with state tax for seven of the eight states in our marketing area. This added procedure will contribute significantly to profits at the Casey's Distribution Center in fiscal 1986.

The second program is equally important. Our new graphics department not only provides a positive contribution to the bottom line, but also insures higher quality point-of-sale advertising, the most effective form of promotion in our stores.

What are our expectations for the next 12 months? We will continue to expand within our eight-state market area by adding 60 new stores, 40 of which will be Company-owned. Thus, we are projecting there will be a total of 542 Casey's General Stores by April 30, 1986. We also plan to remodel an average of two stores per week into pizza and donut operations.

Last year we continued to expand into the fresh donut business, both with convection oven raised dough products and cake donuts fried on the premises. This item has proven to be an excellent contributor to increased customer traffic during the morning hours. We currently have 170 stores making and selling donuts.

We have also finished the testing of homemade "Pizza To Go" at ten of our Company stores. This item is being sold from 4:00 P.M. to 11:00 P.M., using the same kitchen space used for donuts. We are very excited with the early sales results, as well as with the quality of the product.

As you would expect, we are continuing to develop new products for our stores, particularly in the fast food category. The test marketing of large chocolate chip cookies and hot french bun sandwiches are only two of our priority possibilities, as Casey's continues to be an innovator in the convenience store business.

Casey's is an ever changing Company. One factor, however, that will not change is our dedication to operating the cleanest convenience stores in America. We can accomplish that because of the dedicated employees we attract in the small midwestern towns.

By adhering to the standard that brought us this far, and by thoughtful planning, we will be able to continue to grow and prosper.

Donald F Lamberti

October 1985

I've never been in a Casey's Store, nor met any of its management. Based on the reports, things look good. They have very low sales per store, but apparently have low expenses. They are trying to develop a retail offer that fits into the rural markets they are trying to serve. Apparently they have a retail philosophy and appear to be using self-discipline to adhere to that philosophy.

HISTORICAL SUMMARY: SUNSHINE JR. STORES, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended December 27, 1984

Inventory Accounting: LIFO

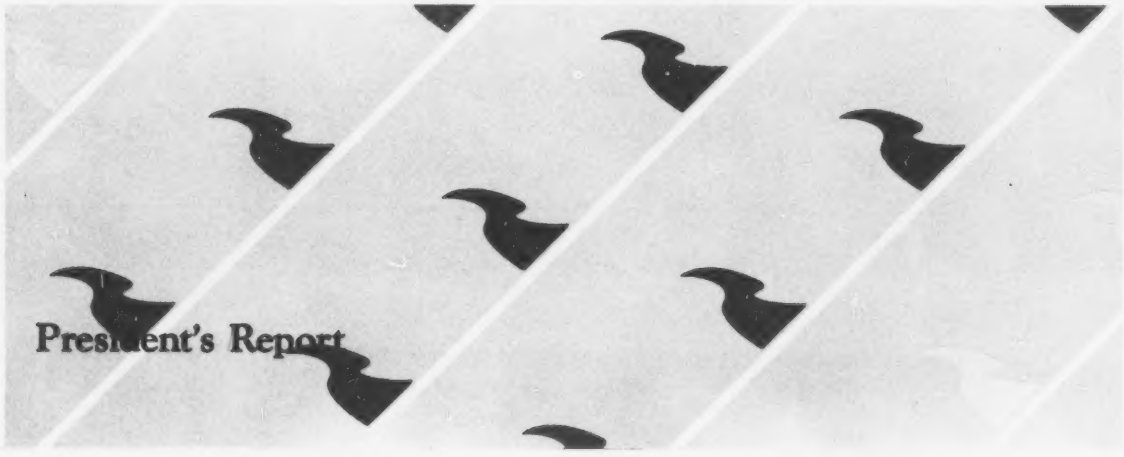
	1ST SURVEY	5TH SURVEY	10TH SURVEY	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY
					YEAR ENDED			
	12/31/70	12/31/74	12/31/79	12/31/80	12/31/81	12/31/82	12/29/83	12/27/84
SUNSHINE JR. STORES, INC.								
Number of Stores	98	215	336	353	354	358	345	336
Store Growth in Year	22	36	20	17	1	4	–13	–9
Store Days	31,766	71,923	118,980	126,087	129,027	129,584	127,946	123,942
Sales per Day	$370	$507*	$502	$522	$562	$570	$558	$651
Sales Growth $DPD	$+18	$+70	$+32	$+20	$+40	$+8	$–12	$+93
Pretax Profit $DPD	$19.35	$30.78	$31.03	$17.71	$21.89	$18.14	$20.43	$28.16
After Tax Profit	$10.12	$16.31	$16.86	$10.51	$12.37	$10.92	$11.36	$16.66
Store Closures			8	11	16	17	17	16
Gasoline Units		51	260	288	307	322	321	319
$DPD Ranking	2/10	3/13	9/13	9/12	9/11	9/12	9/11	6/9

*Includes gasoline sales.

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 336 small food stores on December 27, 1984, in five states.

1. The annual report states that small food store sales were $80,673,117
2. Store Days:
   Store days of stores open all year: 336 × 364 = 122,304
   Store days for net closed stores figured for 1/2 year only: 9 × 182 = 1,638
   Total Store Days: 123,942
3. Sales per Store per Day:
   Sales of $80,673,117 divided by 123,942 store days equals average sales of $651 per store per day for the year.
4. Pretax Profit per Store per Day:
   The annual report states that the operating profit for convenience stores was $6,435,943 before corporate expenses of $3,346,127. Since convenience store sales are 87.4% of total sales, we have allocated the expense on this basis. Convenience store pretax profits were thus $3,491,352. Store pretax profits of $3,491,352 have been divided by 123,492 store days to arrive at a pretax profit of $28.16 per store per day.
5. After Tax Profit:
   After tax profit is 59.16% of pretax profit. After tax small store profit was $2,065,483.
6. After Tax Profit per Store per Day:
   Sunshine Jr. convenience store after tax profits of $2,065,483 have been divided by 123,492 store days to arrive at an after tax profit of $16.66 per store per day.
7. 198 stores or 59% of the stores are open 24 hours a day. 46 stores were open 24 hours a day in 1983.
8. The company operates six supermarkets. Its pretax per store per day profits in the six supermarkets were $108.11.



President's Report

In the history of Sunshine-Jr. Stores, Inc., 1984 may well become known as "the year of decisive actions," actions such as converting the majority of our convenience stores to 24-hour operations, and closing the doors of one of our supermarkets. As difficult as some of these actions were to take, they were necessary to the continued growth of the Company, and are already beginning to result in the changes we sought.

For this reason, I am proud to bring you this 1984 annual report. Sales for the year were $181.9 million, up 7.5% from $169.3 million in 1983. This increase was largely the result of extended sales hours in our Jr. Food Stores, coupled with several successful merchandise promotions. I might add that we see future sales increases coming from these same two factors, which is precisely why we spent the time and money this year to reposition ourselves as a merchandising-oriented, 24-hour operator.

Despite the costs of this repositioning, net income for the year was $2.22 million, up 22.1% from $1.82 million in 1983. Net income per share was $1.30, compared to $1.07 last year. We firmly believe that, thanks to the changes made in 1984, we are starting 1985 with a much stronger foundation on which to base future growth.

Business Segments

Jr. Food Store sales were $160.9 million, up 8.8% from 1983's $147.9 million, with gasoline contributing 50% of total Jr. revenue.

Sunshine Supermarket sales were $20.9 million, down 2.2% from $21.4 million last year. This decrease was directly attributable to the entry of two additional major supermarket chains into the Panama City market, and the resulting intense price competition, plus the closing of one of our stores.

24-Hour Operations

On April 1, we added 105 Jr. Food Stores to our roster of 46 stores open 24 hours a day. In subsequent weeks, we phased in another 110, for a total of 215 stores converted during the second quarter. In the third and fourth quarters, we carefully monitored the convenience stores, returning some of the newly commissioned 24-hour stores to 6:00 a.m.-to-midnight status, and extending hours at several other stores. This delicate balancing act will continue indefinitely as we strive for the right seasonal mix of 24-hour and 6-12 stores. At year-end, however, 198, or 59%, of our 336 Jr. Food Stores were open 24 hours a day. This is up significantly from 46 stores in 1983, and represents a sizeable investment in additional employees, not only in salaries and benefits, but also in training.

Merchandising

Great strides were made in the merchandising area in 1984, with successful promotions for "Thirst Buster," a 32-ounce fountain drink, and "Coffee Club," a free-refill program, both with eye-catching plastic keepsake cups. Pump-toppers were also installed at the Jr. Food Stores, and our first real advertising campaigns were launched on television, radio and outdoor signs.

Most excitingly, our Flowers-by-Wire service, begun in 1983, continues to grow, and is now handled by TransAmerica Floral of Paragould, Arkansas.

Nor are all these promotions limited to our convenience stores. Both the Jr. Food Stores and the supermarkets are currently featuring "Snack Mates," a discount program on an attractive four-piece stoneware set, and supermarket customers are saving their register tapes for small appliances at reduced prices.

Leona J. Lewis, Chairman of the Board
Lana Jane Lewis-Brent, President, Vice Chairman of the Board

Asset Acquisitions

Over the last two years, Sunshine-Jr. has acquired gasoline commission marketing agreements at 107 of its Jr. Food Stores, thus giving us not only the gasoline pumping equipment at these locations, but also the ability to manage supply and pricing. The Company now retains 100% of the profits from the sale of gasoline at these stores, profits which were previously split with suppliers. Of our 319 gasoline installations, 256, or 80%, are now Company owned, leaving 63 under commission marketing agreements. We plan to continue our acquisition program in 1985, with the eventual goal of bringing all gasoline installations under Company control.

Store Openings and Closings

Sunshine-Jr. opened seven new Jr. Food Stores in 1984, four of which are in fast-growing Gulf Coast beach areas. One of these stores, in Panama City Beach, represents a store that was relocated virtually next door, but on a prime-corner site rather than in the middle of the block. This kind of relocation figures largely in our construction plans for the future.

In keeping with our profitability goals, we closed 16 unprofitable Jr. Food Stores during the year, and also one supermarket, for a net loss of 10 stores.

Approximately 25 new Jr. Food Stores are planned for 1985, including "replacement" stores relocated near old stores. Eight new stores are already in the "construction pipeline," six in Florida and two in Mississippi.

People

In 1984, the Company continued its drive to attract high-caliber personnel in an effort to add further depth to management. With the corporate staff realigned and stabilized, our focus this year was on field management, and we were fortunate to recruit and put in place five outstanding new Jr. Food Store Division Managers, one of whom was promoted from within the Company. Our management training program, instituted in 1983, has also yielded a number of Jr. Food Store District Managers, who have potential with the Company in the future.

This year also saw the resignation of Norman Griffin, Vice President of Real Estate, on April 9, and his replacement on the Board of Directors by Kenneth White on May 11.

Dividends and Equity

Sunshine-Jr. declared a $.12-per-share dividend in each quarter of 1984, maintaining dividends for the year at the same level as the last two years.

Stockholders' equity, however, increased in 1984 to $19,290,305, or $11.34 per share, 7.9% over last year's $10.51. We value your investment in Sunshine-Jr. and will continue to employ our resources to your benefit.

Speaking on behalf of all the employees of Sunshine-Jr., we are looking forward to even greater things in 1985.

Sincerely,

Lana Jane Lewis-Brent

Lana Jane Lewis-Brent
President

February 28, 1985

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

For the year 1984, net sales increased 7.5%, compared to a 1.8% decline in 1983 and a 3.7% decline in 1982. Breaking net sales into its components, merchandise sales increased 9.4%, versus a 2.4% decrease in 1983 and a 2.0% increase in 1982. This increase was primarily the result of extended sales hours in the convenience stores, due to our shift to 24-hour operations, and occurred despite a net reduction of 10 stores from 1983. Gasoline sales, the other component of net sales, increased 5.0% in 1984, versus a 1.0% decrease in 1983 and a 10.0% decrease in 1982. The 1984 increase was due to an 8.2% volume increase from extended sales hours, as well as from consumers taking advantage of falling prices at the pump.

Earnings for 1984 were up 22.1%, compared to a 2.0% increase in 1983 and an 11% decrease in 1982. The increase was primarily the result of a continuing improvement in gross margin percentages — 20.7% in 1984, up from 19.5% in 1983 and 18.9% in 1982 — due to the positive impact of Company-owned gasoline installations, which now constitute 80% of total installations, plus selective price increases in groceries. A secondary impact on earnings in 1984 was a decrease in our effective tax rate from 44.4% in 1983 to 40.8% this year. This was due to a higher investment tax credit, associated with the purchase of a new corporate aircraft, and an increase in benefits from the targeted jobs tax credit.

Cost of goods sold as a percentage of sales was 79.3% in 1984, down from 80.5% in 1983 and 81.1% in 1982. This improvement is, again, reflected in our gross margin, which is continuing on an upward trend, largely due to the Company's increased ownership of its gasoline installations, resulting in better pricing practices and inventory control.

Selling, general and administrative expenses were up 12.3% in 1984, compared to a .05% decrease in 1983 and a 6.1% increase in 1982. Following two years of stringent controls by management, 1984 reflects increases in utilities and personnel costs associated with 24-hour operations. Looking at some of the components of SG&A, utilities were up 5.6% in 1984. Depreciation and amortization were up 15.8% for the year, primarily due to the acquisition of 18 additional Company-owned gasoline installations, plus management's philosophy to own, rather than lease, its new stores. Rent on stores was down 4.9% in 1984 because most of the 17 stores we closed during the year had been rental properties. Salaries and wages, by far the largest components of the SG&A increase, were up 13.3% for the year, as we added staff for 24-hour operations, and also continued to recruit management talent and to upgrade all levels of personnel. Payroll taxes and employee benefit expenses were also up. It is management's belief, however, that the number of employees needed to operate on a 24-hour basis has stabilized, and that the Company's formal executive compensation plan and performance appraisal system will serve to keep these expenses in line, now and in the future.

Interest expense was up 66.8% in 1984 because the Company has been using long-term debt to finance the acquisition of gasoline commission marketing agreements. Eighteen such agreements were purchased in 1984, while 89 were purchased in 1983; 63 remain to be acquired.

Convenience-Store Division: In the Jr. Food Store Division, sales were up 8.8% in 1984, compared to a 2.1% decline in 1983 and a 4.6% decline in 1982. This was a direct result of our shift to 24-hour operations, and offset the fact that we had 16 fewer convenience stores in operation than in the previous year. Merchandise sales were up 12.9% for the year, versus a 3.2% decline in 1983 and a 1.9% increase in 1982. Gasoline sales were up 5.0% in 1984, due to extended sales hours, while gasoline volume was up 8.2%. In 1984, we added 18 Company-owned gasoline installations, bringing total Company-owned installations to 256. This was favorably reflected in our gross margin on gasoline, which has increased in each of the last three years. Operating profit in the Jr. Food Store Division for 1984 was $6.4 million, a 36.6% increase, compared to a 16.3% increase in 1983 and a 9.3% decrease in 1982. Part of the 1983 increase resulted from certain expenses, previously charged to the convenience stores and supermarkets,

October 1985

I stand in awe of a management that can make $28.00 a day in pretax profit on store sales of only $651 a day. $651 a day in sales in a 24 hour store translates to sales of less than $30 an hour. The facilities certainly aren't overused.

Sunshine Jr. must have tremendous cost control to make a profit on such low store sales. The Government ought to go to Panama City to try to learn how to hold down costs. Everybody has a soft spot, however, and at Sunshine Jr. it appears to be flowers. Why would a company that has trouble selling cigarettes, beer, and soda pop take on a tough item like flowers?

HISTORICAL SUMMARY: MUNFORD, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended January 3, 1985

Inventory Accounting: LIFO

	1ST SURVEY	5TH SURVEY	10TH SURVEY	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY
					YEAR ENDED			
	1/2/71	1/2/75	1/30/80	1/1/81	12/31/81	12/30/82	12/29/83	1/3/85
MUNFORD, INC. **Atlanta, Georgia**								
Number of Stores	928	1348	1184	1119	987	959	916	835
Store Growth in Year		102	-27	-65	-132	-28	-43	-81
Store Days	338,720	472,108	439,264	407,316	383,292	354,172	341,250	324,770
Sales per Day	$307	$423	$586	$669	$738	$829	$845	$931
Sales Growth $DPD		$19	$57	$83	$88*	$91	$16	$86
Pretax Profit $DPD	$5.86	$12.01	$2.22	($9.59)	$6.85	$15.20	$19.50	$24.71
After Tax Profit $DPD	$2.90	$6.68	$1.34	—	$4.72	$10.38	$13.14	$17.24
Store Closures			-119	Not Given	-155	Not Given	43	Not Given
Gasoline Units		266	555	543	471	481	469	440
$DPD Ranking -	8/10	10/13	13/13	12/12	11/11	10/12	10/11	7/9

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 835 Majik stores in fourteen states on January 3, 1985. The company also operates other divisions with total sales of $67,453,000.

1. Sales:
   The annual report states that Majik Market sales were $356,012,000. The 10K states that gasoline sales from 260 stores are included in Majik Market sales. The annual report has not stated the amount of gasoline sold from Company operated gasoline units in either 1983 or 1984. In 1982 it was $34,500,000. We assumed the units averaged 500 gallons per day in 1983. If we assume the average of these units sold 500 gallons a day at an average price of 109.6 cents per gallon in 1984, the amount of gasoline sales included in Majik Markets sales would be $53,468,360. We have deducted $53,468,360 from total sales reported to arrive at assumed store sales of $302,543,640. If average daily gasoline sales per company operated gasoline unit is over 500 gallons a day, store sales are overstated. If the average gallons sold is under 500 gallons a day, store sales are understated.
2. Store Days:
   Store days of stores open all year: 835 × 371 = 309,785
   Store days for net closed stores figured for 1/2 year only: 81 × 185 = 14,856
   Total Store Days: 324,770
3. Sales per Store per Day:
   Sales of $302,543,640 divided by 324,770 store days equals sales of $931.56 per store per day for the year.
4. Pretax Profit:
   The annual report states that the operating income from food store sales was $9,559,000. This was before net interest expense for the company of $3,067,000. Even though 84% of company sales are from the convenience store business, we have, again, taken the charitable approach and have only deducted 50% of the interest expense. When you deduct this $1,533,500 from the convenience store operating profit, you obtain a convenience food store profit of $8,025,500. This profit of $8,025,500 divided by 324,770 store days equals a pretax food store profit of $24.71 per store per day.
5. After Tax Profit:
   Corporate after tax profits are 69.8% of the pretax profits. After tax small store profits of $5,601,799 have been divided by 324,770 store days to arrive at an after tax profit of $17.24 per store per day.
6. Munford has closed 492 stores between 1980 and 1984.
7. 817 stores or 97% of all stores are open 24 hours per day or hours which extend beyond 7 to 11 traditional hours.

MUNFORD, INCORPORATED

EXCERPT FROM THE ANNUAL REPORT OF MUNFORD, INC., 1.3.85

Dillard Munford and
Russell C. Fellows

TO OUR SHAREHOLDERS

Record earnings, record revenues and record expansion were the highlights of 1984 as Munford, Inc. completed the best year in its history.

Earnings advanced to $8,235,000 or $1.98 per share for 1984, compared to $7,148,000 or $1.74 per share of earnings before unusual items in 1983, a 15% increase. Revenues increased to $423,513,000 in 1984, up 7% over 1983.

These new records were achieved despite the slowdown in retail sales in the fourth quarter of 1984 and sizeable start-up costs for 58 new WORLD BAZAAR stores. Consumer confidence rebounded during the final Christmas shopping days and while sales did not reach the heights expected, they were good, and the Company closed 1984 on the upswing.

In addition to reported revenues, the Company had additional gross receipts of approximately $471,466,000 through the sale of MAJIK MARKET money orders, gasoline sold where the Company recorded only a commission and sales from WORLD BAZAAR franchise stores, which are not included in the reported revenues of the Company. Actually the Company handles approximately $2,500,000 a day, every day of the year, practically all in cash transactions.

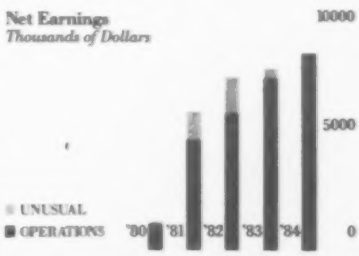
The Company had unprecedented expansion in virtually every facet of its operations in 1984. This program, which was presented to the shareholders in the early part of the year, involved the placement of millions of dollars of merchandise in both the MAJIK MARKET and WORLD BAZAAR divisions and training hundreds of new employees. This expansion required a major part of management's time in expediting these programs.

In addition to opening the new WORLD BAZAAR stores for a gain of 25% in total number of stores, there were 21 MAJIK MARKETS opened; the rattan factory in the Philippines doubled in size and now employs nearly 900 people; two WORLD BAZAAR stores were opened in Sydney, Australia; arrangements were made to open MAJIK MARKET stores in Kuala Lumpur, Malaysia with a joint venture partner; site selection, training and planning was completed for the opening of five convenience stores in London; and the Company's newest specialty retail division, CRAFT BAZAAR, opened its first store.

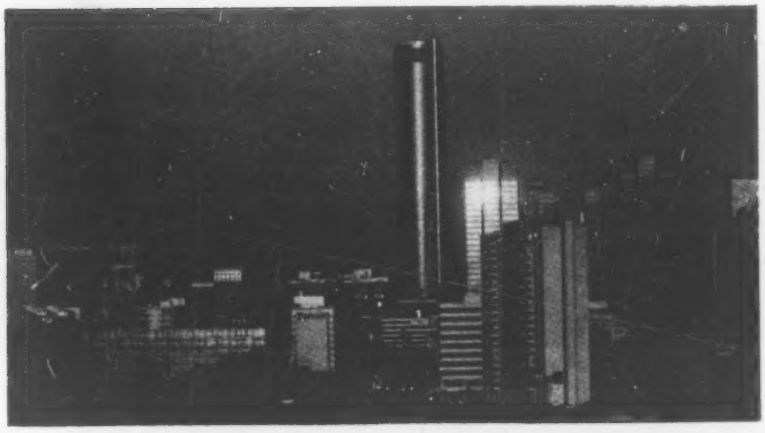
This expansion was accomplished without incurring any unsecured long-term debt. The Company's debt to equity ratio continued to drop from 182% in 1979 to 48% at the end of 1984.

Munford, Inc.'s shareholders participated in the Company's growth in 1984, as the directors approved a stock dividend of one share for each eight shares of common stock and raised the quarterly cash dividend to $.135 from $.125. This resulted in a 21.5% gain in cash dividends. With the 25% increase the previous year, a total dividend growth of nearly 50% in the last two years has been realized by Munford, Inc.'s shareholders.

Leading the growth in 1984 was the WORLD BAZAAR division with its 58 new stores, plus the first two stores in Australia. Most of these stores are located in the growing Sunbelt region of the country, consistent with the Company's policy of concentrating on areas with the greatest population and income growth. A few smaller stores were opened in areas where the Company had successful large stores in major shopping malls, providing greater market penetration and more efficient allocation of supervision and marketing



Atlanta, Georgia, one of the rapidly growing cities of the Sunbelt area.



A GROWING COMPANY

Record breaking expansion of WORLD BAZAAR operations and continuing emphasis on higher per store profitability in the MAJIK MARKET division produced unprecedented growth for Munford, Inc. in 1984.

The WORLD BAZAAR division opened 58 new stores in the United States and the first two foreign-based WORLD BAZAAR units in Australia last year. At the end of 1984 the total number of stores in the United States had increased to 279, including 90 franchised stores.

Revenues of the WORLD BAZAAR division were $67,453,000, an increase of $13,881,000 over 1983. In addition, franchise stores produced sales of $42,988,000.

WORLD BAZAAR's strong growth has placed the division in a position of leadership among U.S. specialty importers. The division is now one of only two American operations with more than a local or regional presence in the industry.

The Company's partners in progress, the franchise owners, are one of the most valuable assets of the Company and contribute significantly to the Company's growth. Munford, Inc. works very closely with its franchisees to provide support, assistance and merchandising advice to assure their success. At the same time the franchise owners, who represent many areas of the country not covered by Company stores, play a vital role in assisting WORLD BAZAAR management with hands-on advice in the identification and development of marketing strategies to meet the changing needs of product lines and in-store merchandising. The franchisees, ranging from young entrepreneurs to seasoned business executives, have enjoyed an enviable high degree of success in the operation of their WORLD BAZAAR businesses.

MAJIK MARKETS achieved continued growth of profitability and opened 21 new stores in high traffic locations, primarily in cooperation with major oil companies, ending the year with 835 stores in operation.

MAJIK MARKETS' revenues increased to $356,012,000 up 11% per store over 1983. In addition, the stores sold money orders and gasoline under contract, not included in the total revenues of the Company, for a total of $431,918,000 bringing total gross receipts up to $787,930,000.

Recognizing another growth market in specialty retailing, Munford, Inc. started a new division, CRAFT BAZAAR, to offer full lines of craft and arts to the craft oriented do-it-yourself customer. The first CRAFT BAZAAR,

Percentage Change In Population 1980 To 2000

88% Of All Company Stores Are Located In the Sunbelt.

Source: Wall Street Journal

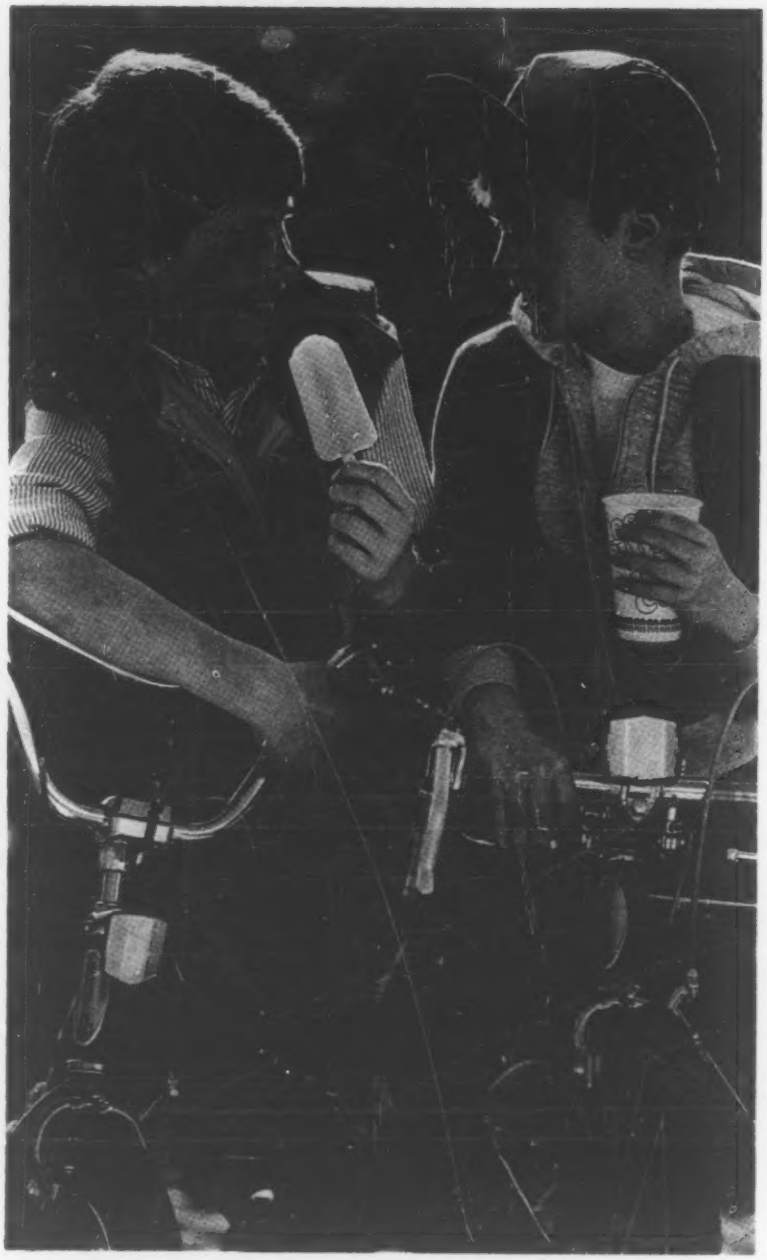
which opened in Atlanta in late 1984, covers nearly 7000 square feet—the largest craft store in the Atlanta market. Featuring five major departments with thousands of craft and art items, CRAFT BAZAAR offers specialty services such as free instruction classes and free custom picture framing when the materials are purchased in the store. The second CRAFT BAZAAR, an even larger store, will be opened in Atlanta in early 1985.

The WORLD BAZAAR Distribution Center was expanded in 1984 to meet the sharply higher demand from nearly 300 WORLD BAZAAR stores. With the addition of 80,000 square feet, the Center expanded to 540,000 square feet of warehouse and shipping operations—all under one roof—enough space for ten football fields. An additional 106,000 square feet of warehouse space was leased to handle the increased demand for furniture and other products for the 58 units added in 1984 and the projected 50 new units to be added in 1985.

Product consolidation operations are being established in the Company's rattan factory in the Philippines which will reduce product cost. Additional reductions in cost are also achieved through the use of the Company's own trucking operation for distribution of merchandise to the stores.

High quality rattan furniture produced by the Company's facilities in the Philippines and Thailand has proven popular with WORLD BAZAAR shoppers. The factory in the Philippines was expanded in 1984 to meet consumer needs as well as the increased requirements due to the growth in number of stores.

WORLD BAZAAR is unique in its integrated operations, in that it



After school fun and refreshments from MAJIK MARKET.

CRAFT BAZAAR offers a full line of art and craft items as well as specialty services.

manufactures its own rattan furniture in its own overseas factories, and while it has no ships, once the product arrives at the docks in the states, it is picked up, delivered to the WORLD BAZAAR warehouse, then distributed to the stores in its own fleet of trucks. No one can put a comparable product on the shelf at a lower price to the consumer. This system, which took twenty years to develop, would be most difficult to duplicate.

Another area of continuing growth potential is the Company's arrangements with major oil companies to operate their stations in conjunction with the MAJIK MARKET convenience stores. The compatibility of self-serve gasoline and convenience store products has been well documented. Almost every major oil company is now adding space for convenience stores at new and remodeled stations. These operations constitute a great opportunity for Munford, Inc. and the MAJIK MARKET division, which already operates more stations for major oil companies than any other convenience store company.

The Company has a track record of increasing gallonage of gasoline sold by adding convenience foods and sound management of the overall operation. Munford, Inc. has proven to the six major oil companies for which it now operates stations that we can do it better and at lower cost. These companies have recognized that the convenience store business is completely different from the marketing of gasoline only. Similarly, most major supermarkets have not entered the convenience store business because they realize it is a totally different and unusual business—even though the products sold are the same.

Munford, Inc. expects to play an important role in the sale of gasoline and convenience products in the future. The reason is simple: This is a service in which the Company has specialized for eight years and has proven beyond a doubt that it can operate a gasoline/convenience store successfully for the major oil companies whose primary emphasis is the sale of petroleum products. In one of its major markets the MAJIK MARKET division operates more than 60 units for a major oil company, and the average gallonage per station, per month is 155,000, which compares to the average monthly gallonage of 28,000 for a typical convenience store.

A key part of Munford, Inc.'s strategy for growth is its concentration of stores in the fast growing Sunbelt states. Already growing more rapidly than the national average, these states are projected to achieve the greatest percentage increase in both population and personal income over the next 15 years. The Sunbelt states constitute the Company's primary market area, though other areas with above average economic possibilities offer further opportunities.

The pacesetting performance of the Sunbelt area is seen in the Southeast where the population is growing 10 percent faster than the national average. Buying power in the region has risen even more dramatically, climbing 212% in a decade versus 172% for the nation as a whole. Effective buying income in this region exceeds $268 billion annually, with retail sales topping $156 billion a year. Fifty-five percent of the Company's facilities are located in the leading growth states of Florida, Texas and Georgia.

Convenience stores, nationally, have grown in economic importance, increasing their share of the over-all grocery market to more than 7 percent annually. A continuing strong growth rate is projected for the industry, which is directing more sophisticated merchandising and marketing toward a broader cross-section of customers.

Specialty retailing has shown strong growth and has a most favorable outlook, according to industry analysts.

MAJIK MARKET

WORLD BAZAAR

One of the most active areas of the industry is furniture, enjoying an increasing demand as a result of lower interest rates which spurred a sharp increase in housing sales. Housing starts advanced to 1.8 million in 1984, up more than 20%. Even with moderating economic growth nationally, lower interest rates are expected to encourage continuing strong growth in housing and a healthy demand for furniture—one of the major lines of the WORLD BAZAAR stores.

These statistics translate into marketing advantages for Munford, Inc. through its MAJIK MARKET, WORLD BAZAAR and CRAFT BAZAAR divisions, all of which are consumer oriented.

Plans are to open several more CRAFT BAZAAR stores in 1985, all large facilities catering to specialty sales combined with classroom and demonstration areas.

The MAJIK MARKET division, with plans for opening nearly 40 new stores, expects to capitalize on the growth trends in the convenience store industry, especially in the high growth Sunbelt area. This division will also continue to pursue the opportunities available from operating convenience stores in conjunction with the major oil companies.

WORLD BAZAAR's record growth in 1984 positions this division for continuing strong performance in the high quality, imported specialty gifts and home furnishing industries.

With more leisure time, consumers are looking for new and different things to do. Munford, Inc., as a specialty retailer, plans to be a part of this growing demand by continuing to offer to its customers convenience and an increasing variety of "Fun Things to Do" for a livelier lifestyle.

Redecorate a room with trend-setting furnishings from WORLD BAZAAR, and custom framing by CRAFT BAZAAR.

expense. This accelerated growth of WORLD BAZAAR with emphasis on the Christmas selling season will greatly increase profitability during the fourth quarter but could negatively impact first quarter results, as is the case with most retailers.

In the MAJIK MARKET division, continuing emphasis was given to improving profitability, as new stores were opened, some older units refurbished and other marginal stores either closed or sold.

While the growth rate in the convenience store industry has subsided from the vigorous pace of the 1960's and 1970's, it is the belief of the management of Munford, Inc. that there are unprecedented opportunities for continuing development in this industry, especially for a mature, experienced company with the ability to operate convenience stores in conjunction with major oil company facilities. Munford, Inc. has this experience and maturity.

Convenience foods and gasoline have proven to be most compatible in the marketplace, not only in the United States, but in the Company's joint venture in Australia with a major oil company. Plans to open similar stores in Malaysia with a major food wholesaler and in England in conjunction with a major oil firm, all having basically the same method of operations, are expected to be equally successful.

The MAJIK MARKETS of today have little in common with those of five years ago. New and remodeled MAJIK MARKETS now include delicatessen items, fast food, microwave ovens, banking facilities and, of course, gasoline—in effect a "one-stop" convenient location.

One of the most exciting developments in 1984 was the launching of the new CRAFT BAZAAR division. While there are numerous craft shops in almost every city, there is nothing like a CRAFT BAZAAR store. In addition to a complete range of craft kits and art supplies, CRAFT BAZAAR also offers free craft classes and the store's slogan is "We Guarantee Your Work."

CRAFT BAZAAR also provides free custom picture framing when materials are purchased in the store. Craft lines range from candy making kits, stenciling and cross stitch to art supplies. As new craft items come on the marketplace, the artistic and craft oriented consumer with a little spare time will be able to find even more "Fun Things to Do" at CRAFT BAZAAR.

CRAFT BAZAAR stores will follow the successful format of the WORLD BAZAAR stores in that there will be both company operated and franchised units. Franchises, however, have not yet been offered to the public.

The new format of this report is directed toward better acquainting the shareholders with Munford, Inc., as a whole, and the relationship of each of its divisions to the overall thrust of the Company.

Munford, Inc. is frequently thought of as a diversified company involved in several varied types of operations. The fact is—Munford, Inc. is a specialty retailer in all areas of its operations, specializing in convenience and "Fun Things to Do" and a livelier lifestyle for the consumer.

The information in this report is a continuation of the brief overview given in this letter and describes in much more detail the many areas of expansion and improvement in the Company, the challenge of offering a happier lifestyle to the consumer, and how the international operations enhance the Company as a progressive specialty retailer. It is believed you will enjoy reading the remainder of this report and you are encouraged to do so.

Munford, Inc. remains in excellent financial condition. The Company believes in careful management of its financial resources to avoid any general, unsecured long-term debt. At the same time, ample financing is provided through internal funds with the availability of adequate lines of credit, if needed.

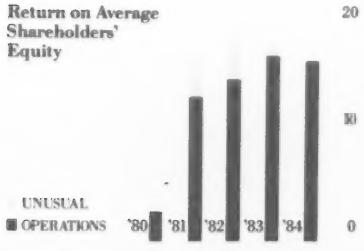
Located in the greatest growth area of the country in terms of both jobs and personal income, Munford, Inc. is in an excellent financial position to participate in the continuing growth of the Sunbelt region.

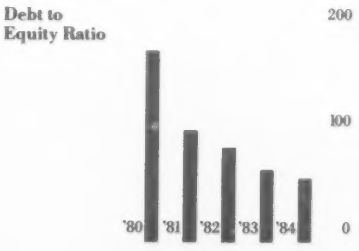
Earlier in the year, in a report to shareholders, it was noted that the Company management faced a decision on whether to guard the quarterly earnings increase, which is the Damocles sword under which all corporate managements sit, or to undertake an expansion program far beyond normal growth—looking to the future rather than to the present. The Company opted for growth. The 1984 programs have been completed and the management of Munford, Inc. is proud of the results.

Sincerely,

DILLARD MUNFORD
Chairman of the Board and
Chief Executive Officer

RUSSELL C. FELLOWS
President and
Chief Operating Officer





October 1985

Each year I read the words in several hundred annual reports. No other report approaches the confusion you are faced with in trying to understand the Munford report. The copy for Munford's explanation of their operations looks as if they ran it through a scrambler, or the copyrighter drank three martinis before setting about the task. If it was really necessary to understand it, you would have to get several reports, cut them up and repaste the comments by division.

No one should waste time doing this. Don't waste time on a company that boasts they sold 1,783,000 money orders for a face value of $108,368,000. The only way selling money orders can be profitable for them is that they have such low sales and so much unused store capacity that they need to find something for the store help to do. Even grinding coffee beans may be a more productive use of store labor.

What we do know about Majik Markets is that they continue to operate less store units each year. They operated 1,408 stores in 1976, and have continued to prune low volume and unprofitable stores ever since. Last year they stated they would add 40 to 50 new stores, but this year's report shows another slippage of 81. My store visits to Majik stores tell me they still have many low volume, unprofitable units that will have to be closed. A blind man would be unhappy with some of their Atlanta units. Their net closures since 1976 have been 573 stores. Even these closures haven't raised their average store volume to a respectable level.

The report writer wants you to know they are a "specialty retailer." Specialty retailing is a buzz word that is supposed to give your stock a higher price earnings ratio, regardless of your operating ability or your results.

HISTORICAL SUMMARY: DAIRY MART CONVENIENCE STORES, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended January 31, 1985

Inventory Accounting: LIFO

	9TH SURVEY	10TH SURVEY	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY
					YEAR ENDED		
	1/31/79*	1/31/80*	1/31/81*	1/31/82*	1/31/83	1/31/84	1/31/85
DAIRY MART CONVENIENCE STORES, INC. **Enfield, Connecticut**							
Number of Stores	73	79	94	140	143	176	200
Store Growth in Year	6	6	15	46	3	33	24
Store Days	25,547	29,927	31,659	42,682	51,646	58,201	68,808
Sales per Day	$1,011**	$1,057**	$1,045	$934	$1,009	$1,194	$1,147
Sales Growth $DPD	—	—	—	$-111	$+75	$+185	$-47
Pretax Profit $DPD	$1.41	$2.35	$10.93	$.48	$11.27	$31.61	$23.98
After Tax Profit $DPD	$1.17	$1.86	$2.30	$.41	$8.50	$17.55	$18.78
Store Closures	0	2	2	23	11	10	7
Gasoline Units					28	28	35
$DPD Ranking					11/12	7/11	8/9

*Data taken from the Prospectus dated July 22, 1983 and 10K for the Year Ended July 22, 1982.

BASIS FOR PROFIT PER DAY DETERMINATION

Dairy Mart operated 200 stores in Connecticut, Massachusetts, and Rhode Island on January 31, 1985. 140 of these stores were company operated, and 60 units were franchised.

1. The annual report states that sales for the year were $92,739,000. It also states that $13,792,735 of these sales were from gasoline. Store sales were thus $78,946,265.
2. Store Days:
   Store days of stores open all year: 176 × 366 = 64,416
   Store days of new stores figured for 1/2 year only: 24 × 183 = 4,392
   Total store days: 68,808
3. Sales per Store per Day:
   Store sales of $78,946,265 divided by 68,808 store days equals average sales of $1,147 per store per day for the year.
4. Pretax Profit:
   Pretax profit of $1,650,035 divided by 68,808 store days results in a pretax profit of $23.98 per store per day.
5. After Tax Profit:
   After tax profit of $1,292,035 divided by 68,808 store days results in an after tax of $18.78 per store per day.
6. **Gasoline not included in above sales figures from February 1, 1980 forward.
7. Became a public company at the end of July 1983.
8. 33 stores open 24 hours.
9. Purchased Lawsons 692 stores from Sara Lee on July 1, 1985, for a purchase price of $45,000,000 or $65,028 a store. Now state they are the 5th largest C-Type chain with 900 stores.

Message to Stockholders

Charles Nirenberg

To Our Stockholders:

I can report to you that in spite of increased sales and profits, we were not able to achieve some of our goals. For the fiscal year ending January 31, 1985, our sales increased 12% to $92,739,288 from $82,681,276 for fiscal year 1984. Our net earnings increased by 26%, rising to $1,292,035 or $1.11 per share from $1,021,709 or $1.03 per share (after allowing for stock dividend of July, 1984).

Last year our goal was to increase sales by 25% and to increase profits something in excess of that. Although we did manage a 26% increase in profits, we fell short on our expected sales increase.

In many industries full employment, or low unemployment would be an asset. With Dairy Mart the low unemployment in the three (3) states in which we operate has made it very difficult for us to get employees at the low end of the wage scale. This problem has not only caused us to cut back many of our 24-hour stores to the basic regular hours, but also has resulted in a lower earnings per dollar because of a higher shrink rate with available employees. We shall, however, not be satisfied to let this situation continue. We have already made progress in the direction of improved operating results and are hopeful that we shall do much better this coming year.

We have appointed a new Vice President for Human Resources, effective January 1, 1985, and he has many progressive ideas on how to resolve our people problem. He has already put into play what he refers to as a "people bank" which requires an intensive search within our own present employees. I am happy to say that we continue to find promotable people who should make tomorrow's work much easier.

At the end of fiscal year 1985, Dairy Mart has 200 stores in Connecticut, Massachusetts, and Rhode Island. This compared with 176 that we operated or franchised at the end of fiscal year 1984.

On November 9, 1984, we made an acquisition of the Dacey Brothers chain of convenience stores in the greater Boston area. This acquisition was made for cash and those stores have already been converted to Dairy Marts. The 4th quarter was not favorably affected by this acquisition because it is the worst time of year for business in the Northeast. It was also a period of transition and remodeling to the Dairy Mart system. We now feel ready to go into the first quarter of 1986 with these stores in good shape.

Our gasoline operation has also expanded over the past year from 28 store locations on January 31, 1984, to 35 on January 31, 1985. Total gallonage increased 8% as compared to the previous year.

Our dairy plant and office facility has increased substantially over the past year. We have built a new 6,000 square foot addition to the Enfield plant to be divided in the following manner: 2,000 square feet of freezer storage — 2,000 square feet of future ice cream production plant and 2,000 square feet to be used for our new Dairy Mart Convenience Store, Manager Training Center in Enfield. Having moved this store to the new addition, the former store area has been developed into a new office complex, including six private offices for our expanding executive team.

DAIRY MART CONVENIENCE STORES, INCORPORATED
EXCERPT FROM THE ANNUAL REPORT OF DAIRY MART CONVENIENCE STORES, INC., 1.31.85

Steven Montgomery
President, January 1985

Our financial position continues to be strong, due to the firm support given us by our major lending institutions. With their help, we have been able to take advantage of the investment portfolio whose earnings are 85% tax free. Although this exemption is no longer available today, we are grandfathered into this position. As you will notice, it is this investment portfolio which has allowed us a lower average tax rate.

Our prime market area continues to be the Northeast, an area of great growth in recent days and still an area that continues to be of interest to the entire convenience store industry for growth potential. Again this year, we plan to open 20 stores internally in fiscal 1986.

Our feet are on solid ground. Our executive team and middle management are in place for growth. Our dairy plant continues to be wide open for expansion for up to 500 stores. Our computer system is in place and operating like clockwork with the capability of also handling 500 stores.

Dairy Mart will continue to be a growth company. We again project an increase in sales of 25% but this time I hope to exceed it. Although we continue to make it very clear that acquisitions can never be guaranteed, we do have a very fine record in that regard. Over the past five years we have made at least one acquisition a year. I am hopeful that we can do no less in fiscal 1986.

Finally, this will be a year of change. After many years as President of the Company, the time has come for a new, young President to have taken office. As of January 1, 1985, Steven Montgomery has taken on this office. Steve is 38 years old and has spent the last twelve years with Dairy Mart building his way up through Store Manager, Development Supervisor, Supervisor of Stores, Director of Store Operations, Vice President of Store Operations and now to become President. I expect to continue as Chief Executive Officer and shall be no less industrious in the furtherance of the success of the Dairy Mart Company.

I would like to thank you for your past support and confidence.

Very truly yours,

Charles Nirenberg

Charles Nirenberg
Chairman of the Board
Chief Executive Officer

October 1985

I've never been in a Dairy Mart store, nor have I met any of the principals of this firm. Consequently, I'll restrain my comments on this company.

One should note that in the annual report dated July 1, 1985, the chairman states "our feet are on the ground." Less than five months later, Dairy Mart bought 700 stores that apparently even Circle K didn't want.

HISTORICAL SUMMARY: CONNA CORPORATION

Data Taken from the Annual Report
and 10 K for the Year Ended May 26, 1985

Inventory Accounting: FIFO

	1ST SURVEY	5TH SURVEY	10TH SURVEY	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY
					YEAR ENDED			
	5/31/71	5/25/75	5/25/80	5/31/81	5/29/82	5/29/83	5/27/84	5/26/85
CONNA CORPORATION **Louisville, Kentucky**								
Number of Stores	137	218	336	416	434	435	405	393
Store Growth in Year	-15	44	20	80	18	1	-30	-12
Store Days	50,005	71,334	118,664	139,456	154,700	158,158	152,880	145,236
Sales per Day	$877	$947	$1,538	$1,589	$1,535	$1,554	$1,610	$1,707
Sales Growth $DPD	$+163	$+35	$+107	$+51	$-54	$+19	$+56	$+97
Pretax Profit $DPD	$2.04	$18.96	$40.04	$23.18	$16.42	$(-1.72)	$(-.60)	$13.05
After Tax Profit $DPD	$1.02	$9.50	$21.21	$13.96	$10.55	$.56	$.14	$6.52
Store Closures	30		8	7	8	12	30	21
Gasoline Units	68	78	248	314	309	289	268	271
Number of Stores Company Operated				57	61	57	54	61
$DPD Ranking	9/10	8/13	6/13	8/12	10/11	12/12	11/11	9/9

BASIS FOR PROFIT PER DAY DETERMINATION

Operated 393 food stores on May 26, 1985, of which 332 are franchised stores, and 61 are company operated stores.

1. The annual report states that sales were $408,038,000 for the year. We have deducted gasoline sales of $145,602,000, dairy sales of $12,654,000, and corporate revenues of $1,787,000 to arrive at store sales of $247,995,000.
2. Store Days:
   Store days of stores open all year: 393 × 364 = 143,052
   Store days for net closed stores figured for 1/2 year only: 12 × 182 = 2,184
   Total store days: 145,236
3. Sales per Store per Day:
   Sales of $247,995,000 divided by 145,236 store days equals average sales of $1707.
4. The chairman of CONNA does not think his Company can be analyzed and compared with other C-type stores in the industry.

HISTORICAL SUMMARY: CONNA CORPORATION
(CONTINUED)

5. Pretax Profits:
   The company is primarily engaged in franchising and operating small food stores. It sells gasoline through these stores. It also wholesales tobacco and sundry items, sells dairy products, finances franchisees, and strangely enough has income from overseas consulting. It has sold work clothes, prefabricated housing, and has been in the electronic funds business and the automated gasoline dispensing system business. When all of the businesses are combined, the company lost $3,904,000 or $26.04 per store per day for the year on a pretax basis. After tax credits, it lost $2,480,000 or $17.07 per store per day. For this report, we have generously excluded $5,800,000 in writedowns to arrive at a pretax profit of $1,896,000 or $13.05 per store per day. Using a 50% tax rate we have estimated after tax store profits of $6.52 per store per day.
6. Gasoline sales are not included in store sales shown since 1974.
7. 40% of the stores are now open 24 hours, and new franchise agreements call for all stores to be open 24 hours a day where it is not economically unfeasible.
8. The 271 units sold 134,500,000 gallons of gasoline during the fiscal year and averaged 1,371 gallons per unit per day.

CONNA Corporation

A Profile

CONNA is a holding company which operates retail self-service gasoline outlets, operates and franchises convenience type retail food stores, and distributes dairy, grocery and other items.

CONNA grew out of Convenient Food Marts of Louisville Inc., founded in 1959. In 1968, the Company became publicly held and changed its name to Convenient Industries of America, Inc. Convenient now is a subsidiary of CONNA, which was formed in 1979.

At the end of the fiscal year, CONNA operations included 393 Convenient Food Mart stores and 271 gasoline outlets.

Five Year Financial Summary

CONNA Corporation and Consolidated Subsidiaries
(in thousands, except per share data)

	1985	1984	1983	1982	1981
Net Sales of the Company, its Consolidated Subsidiaries and its Franchisees	$408,038	$414,290	$430,985	$443,149	$418,550
OPERATING RESULTS					
Revenues					
Gasoline Retailing	$145,602	$152,301	$170,126	$190,139	$182,148
Food Mart Stores	40,456	31,891	42,628	46,265	37,535
Dairy Products	12,654	12,871	14,962	15,544	14,769
Corporate and Other	1,787	2,943	2,034	262	477
Total Revenues	200,499	200,006	229,750	252,210	234,929
Costs and Expenses	204,403	200,098	230,023	249,669	231,695
Earnings (Loss) Before Income Taxes	(3,904)	(92)	(273)	2,541	3,234
Net Earnings (Loss)	(2,480)	22	88	1,632	1,947
Net Earnings (Loss) Per Share	(2.17)	.02	.08	1.45	1.75
Cash Dividends Per Share	$ .08	$ .48	$ .48	$ .47	$ .41
Weighted Average Shares Outstanding	1,140	1,187	1,148	1,126	1,112
OTHER FINANCIAL INFORMATION					
Net Property & Equipment	$ 9,934	$ 12,244	$ 9,746	$ 11,266	$ 10,965
Total Assets	36,840	46,204	47,473	45,280	45,61[illegible]
Long-Term Debt and Capitalized Lease Obligations	15,289	18,759	14,836	13,381	14,072
Shareholders' Equity	8,875	11,912	12,457	12,215	11,144
Shareholders' Equity Per Share	$ 7.87	$ 10.04	$ 10.50	$ 10.84	$ 9.89

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The many positive developments of the past year tend to be overshadowed by the magnitude of the net loss incurred for the year. Therefore, we are using the better portion of this letter to report on these developments.

First, the Company no longer has any investment associated with the electronic funds transfer (EFT) business. The withdrawal from the EFT business caused write-downs of $3,480,000 after taxes. We were excited about the potential of the investment in the Autocard automated gasoline dispensing system and the technology developed by Quadstar Corporation that made the system possible. In fact, the use of EFT should grow substantially in the future, but profits were too distant, and operating costs and capital needs too high to continue the investment. The decisions to write-down these investments were difficult but were necessary for future profitability.

The effects of the write-downs disguise an improving profit picture. Excluding these unusual items, your Company's net earnings were $1,000,000, a significant improvement over the prior two years. The fiscal 1985 operations of the now discontinued EFT businesses also caused approximately $1,900,000 in other pre-tax operating expenses and losses. Excluding these losses, and the $5,800,000 pre-tax write-downs, earnings before taxes would have been over $3,800,000, the second highest in the Company's history.

The results of our subsidiary, Convenient Industries of America, and the Convenient Food Marts it operates and franchises are particularly encouraging. In last year's report, we pointed out the need for improving profits in food marts. This segment's profits increased by over $1,500,000 in the past year. Average store sales increased by 5%, exceeding the inflation rate for the first time in several years. Profitability at the store level, including both company and franchised stores, increased by 44% as a result of programs instituted in the past two years. A new franchise agreement was introduced in the past year and for the first time in 10 years, the royalty fee was increased. The new agreement and fee structure will be phased in slowly over the coming years, with an estimated 65 stores operating under the new agreement by the end of fiscal 1986.

Last year we also instituted an aggressive cost reduction program with a goal to reduce corporate administrative expenses by 10%. This goal was not only met, but exceeded, greatly contributing to increased operating profits. These reductions will carry forward into fiscal 1986 by providing a lower base of administrative expenses.

Our gasoline retailing subsidiary, Remote Services, also had an outstanding year. Gross profit per gallon increased and average gallons sold increased slightly in a very competitive market. Excluding Autocard expenses, operating profits were up by $400,000 over the prior year. Remote Services now accepts credit cards at over 100 locations, and the usage has been good, indicating that there has been little or no loss in business caused by discontinuing the Autocard system.

We carefully managed our balance sheet in the past year in an effort to convert assets into cash by reducing the investments in such areas as notes and accounts receivable. Combined with the operating profits from food marts and gasoline retailing, this practice allowed the Company to repay over $3.3 million of long-term debt while maintaining a solid working capital position.

As a result of the practices put into place in the past year, we are very optimistic about the potential financial results in fiscal 1986. Plans call for 20 new store openings, and substantial improvements to existing facilities. The following pages provide more detail about the results for this year and the plans for next year to further improve operating results.

In closing, we would like to thank the shareholders and others who supported our Company in the past year. We would also like to commend our franchisees and fellow employees who worked so diligently to achieve the positive results we referred to above.

Sincerely,

Joe P. Peden
Chairman of the Board

Robert T. Johnson
President

August 23, 1985

25 TWENTY-FIFTH ANNIVERSARY

This past fiscal year marked a milestone in the history of Convenient Food Marts. In April, the first Convenient Food Mart celebrated its 25th Anniversary. A Silver Anniversary series of events and promotions was designed to celebrate this occasion, and give recognition to the franchisees, suppliers, employees and customers that have made this anniversary possible.

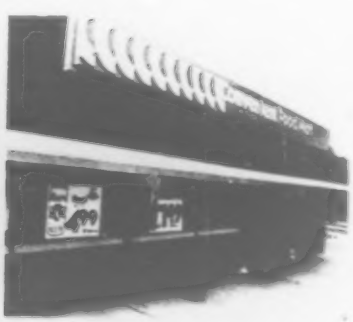
The convenience store industry was still in its infancy in 1960 when our first store was opened. In 1985, the industry reached over $1 billion in total profits for the first time, and continues to grow and evolve. This growth has been accomplished primarily by recognizing and satisfying the changing needs of the customer. Convenient Food Marts are customer-driven businesses. Today, just as 25 years ago, the success of Convenient Industries is dependent upon the success of the franchisees and their ability to service their customers.

The changes in customer expectations and demands, along with new competition, reinforces the need for constant evaluation of our total image and presentation. The kinds and brands of products that are carried and how they are merchandised and priced has always been evaluated closely. Our product mix is now emphasizing fast foods and "convenience" items instead of the traditional grocery items. Increased emphasis has been placed on these high customer demand, high gross margin items.

Products and services are only part of the total store image. Store image also includes the interior and exterior of our locations. Improvements to the basic design of the stores has been an ongoing process. This past year brought a bright new decor to the store interior along with new merchandising layouts and exterior enhancements. The new interior addresses the changing expectations of the customer, by providing a bright, cheerful shopping environment. A colorful and striking window graphics program designed to improve the stores exterior image received positive acceptance in all regions. Emphasis remains on maintaining a modern and inviting convenience store through an aggressive remodeling and redecorating plan. Additionally, these changes provide for a more cost efficient store designed and decorated to maximize sales and profitability. Both franchised and company stores will be included in this plan.

Customers also demand convenience in the hours available to shop. The number of stores open 24 hours a day has grown to 40% of all stores.

Meeting new competition, increased remodeling activity, continuing cost control, maintaining gross margin improvement and strengthening company store performance make up a few of the goals and objectives to be achieved during fiscal 1986. The corporate and regional staffs as well as store owners, managers, and employees must have the customer interests uppermost in their minds. Continued training, guidance, and operational support will be provided to the stores allowing the owner's attention to be focused on the customer. Each day, customer expectations must be met on every shopping visit. The profit improvement achieved in fiscal 1985 will be improved upon in 1986, and beyond as long as all concerned focus on the customer.



Remote Services maintained a high level of profitability in fiscal 1985 even while facing several negative factors. Gasoline demand remained relatively unchanged while competition intensified as major oil companies continued to price with independents to maintain or regain their market share. Remote countered by monitoring each gasoline location in order to determine the optimal competitive price necessary to maintain volume. Remote also controlled the cost of the product through aggressive purchases in the spot market, and through the commitment of its primary suppliers to be more cost competitive.

Together, these actions resulted in a slight improvement in both average gallons sold per location and average gross profit in terms of cents per gallon. Other operating expenses increased because of costs associated with the Autocard system, resulting in operating profits only slightly lower than the previous year. These additional expenses will not recur in the next fiscal year.

At year end, Remote Services operated 271 retail self-serve motor fuel outlets in nine states, up from 268 outlets at the end of the previous year. Six outlets were closed when the Convenient Food Mart stores at which they were located closed. Nine new outlets, all at Convenient Food Mart stores, were opened during the year. Of the total 271 outlets operating at year end, 250 were located at sites controlled by Convenient Industries of America, Inc., and 20 were at Convenient Food Marts operated by an independent Florida-based company.

Changes in governmental regulations continue to affect Remote's operation. The Environmental Protection Agency (EPA), for example, is determined to force severe reductions in the lead content of gasoline. On July 1, 1985, the EPA mandated a reduction of over 50% in the lead content to be followed by a further reduction in 1986. The aggressive plans of the EPA are receiving mixed reviews from the oil industry, the nation's farmers and the motoring public, and could result in significant changes in how gasoline is marketed.

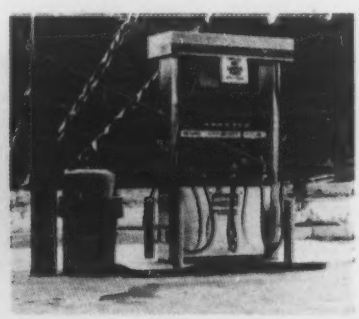
Unleaded gasoline accounts for more than 50% of Remote's total sales volume, and this mix is expected to continue to increase. Accordingly, underground storage has been switched at many locations to allow for greater unleaded deliveries. Remote is also changing the hose configuration to allow for more no-lead hoses at each location.

Existing locations continue to be remodeled, particularly those with proven volume and space to expand. These plans include adding more pumps and hoses, better lighting, canopies, and new color graphics. This new look will enchance Remote's total image and productivity and therefore contribute additional sales and profits.

Approximately 20 new locations are expected to be opened in fiscal 1986. Included in these plans are at least two facilities with a capacity of twenty hoses or more. This compares to an average of about five hoses at existing units. The remaining new units will generally have a capacity of 8 to 12 hoses, still larger than the average hose capacity found at the majority of our present locations.

The commitment to remodel and expand new facilities reflects a belief that there is a bright future in gasoline marketing. The industry is undergoing tremendous change, and Remote Services must continue to be innovative and agile in its marketing approach. Dependable sources of product, including gasoline blended with ethanol, must be continually evaluated for price and quality, so that the consuming public receives the best product at a competitive price.

Remote has proven its ability to compete in this kind of marketplace, and to produce excellent financial results.



October 1985

The management of CONNA takes the prize for perennial optimism. If I were shipwrecked on an island, and a bottle with a note in it washed up on the beach and the note said "The many positive developments of the past year tend to be overshadowed by the magnitude of the net loss incurred for the year," I'd know immediately it was from a CONNA annual report, that they were still in business, and I'd feel heartened.

The real good news is that they didn't announce a new subsidiary business this year. This is a company that should stick to the food store franchising business and cut their corporate operating expenses.

Until 1974, CONNA figured they could make a profit if they charged franchisees a 4% fee on sales, plus rental upcharges and a share of the gasoline margin. Later they figured they could make it if they charged a 4½% fee on sales. In January 1985 they decided they needed 5% on sales and that the stores needed to be open 24 hours a day for the corporate parent to be healthy.

None of this apparently bothers the franchisees. The reported average store volume has increased only $276 per day per store in six full years. Sometimes sales reports to franchisors are inverse to the rate of charge to the franchisees.

STORES OWNED BY OTHER PUBLICLY-OWNED COMPANIES

For your information, we've also included some statistics from the annual reports of other publicly-owned companies that operate small food stores. The annual reports of these corporations do not break out their store operations in sufficient detail to allow dollars per day analysis. These companies operate the following units:

COMPANY NAME	STORES OPERATED UNDER THESE NAMES	NUMBER OF STORES 11TH SURVEY	NUMBER OF STORES 12TH SURVEY	NUMBER OF STORES 13TH SURVEY	NUMBER OF STORES 14TH SURVEY	NUMBER OF STORES 15TH SURVEY
Sara Lee	Lawson's	730	700	680	670	700[1]
American Stores (Jewel)	White Hen Pantry	244	262	275	301[3]	
Diamond Shamrock	Sigmor Shopping Stations	360	357	—	550	522
Marsh	Village Pantries	123	131	140	142	154
Ashland Oil, Inc.	SuperAmerica Save Mart	N/A	265	—	300	316
Silicorp Limited	Mac's	656	701	683	747	759
	Farr View	36	N/A	34	30	37
	Hop-In	152	158	152	129	126
Convenient Food Mart (includes operations of 45 regional franchisers)		1,004	1,038	1,078	1,086	1,134
Southland	Quik Mart	330	350	351	351	291
Sun Company	King Kwik	1,202	1,115	—	220	164[2]
Crown Central	Zippy Mart Fast Fare				642	650
Atlantic Richfield	AM/PM	500	685	—	765	792
Kroger: (Dillon)	Time Saver Quik Stop Kwik Stop Tom Thumb	338	349	352	352	443
Total North American Stores This Year					6,396	6,088
Seven-Eleven Japan Co.	Seven-Eleven	1,040	1,306	1,643	2,001	2,299

1. Sara Lee sold 692 Lawsons stores to Dairy Mart on 7/1/85 for $45,000,000 or $65,028 a store.
2. Actual number unknown. Bought King Kwik in Cincinnati in 1984.
3. White Hen Pantry stores were sold to a management group in early 1985.
4. The oil companies operate many C-Type units. No figures are available on the number of these units at this time.

HISTORICAL SUMMARY: SEVEN-ELEVEN JAPAN CO., LTD.

Data Taken from the Annual Report and 10 K
for the Year Ended February 28, 1985; Report Received June 12, 1985

	8TH SURVEY	9TH SURVEY	10TH SURVEY	11TH SURVEY	12TH SURVEY	13TH SURVEY	14TH SURVEY	15TH SURVEY
			YEAR ENDED					
			2/29/80	2/28/81	2/28/82	2/28/83	2/29/84	2/28/85
SEVEN-ELEVEN JAPAN CO., LTD. **Tokyo, Japan Established 1973**								
Number of Stores	375	591	801	1,040	1,306	1,643	2,001	2,299
Store Growth in Year		216	210	239	266	337	358	298
Store Days			254,736	335,863	428,012	538,024	666,852	784,601
Sales per Day			$2,052	$1,905	$1,967	$2,028	$2,036	$1,896
Sales Growth $DPD				$–147	$+65	$+61	$+8	$–140
Pretax Profits $DPD			$83.03	$85.36	$87.88	$95.73	$104.63	$110.87
After Tax Profit $DPD			$36.86	$39.23	$38.40	$41.67	$45.87	$45.44
Store Closures				—	—	21	18	17
Gasoline Units				—	—	—	—	—
Average Square Foot Per Store						978	985	985
Yearly Sales Per Square Foot						$756.87	$754.45	$702.57

BASIS FOR PROFIT PER DAY DETERMINATION (in U.S. Dollars)

Operated 2,299 Seven-Eleven stores in Japan on February 28, 1985 of which 2,090 are franchised. 209 are company operated.

The average Seven-Eleven store in the United States had total store sales of $647,145 from 2,400 square foot or sales per square foot of $269.64 for the year. The average Seven-Eleven store in Japan had total store sales of $692,040 from 985 square feet or sales per square foot of $702.57 for the year.

The average dollars of pretax profit per store day for Seven-Eleven in the United States was $50.80. The average pretax profit per store per day for Seven-Eleven Japan was $110.87.

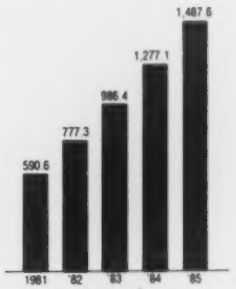
Seven-Eleven Japan Co. paid Southland $7,954,000 as a royalty during the fiscal year. That was 53/100th of 1% of sales. It amounted to $10.13 per store per day for Seven-Eleven Japan and $2.94 per store per day for each Seven-Eleven store in the United States.

To Our Stockholders

Fiscal 1985, ended on February 28, 1985, was another year in which Seven-Eleven Japan continued to build a highly profitable foundation. The number of 7-Eleven stores increased by 298 to 2,299 at year-end. Net sales surged to ¥386,767 million (US$1,487.6 million), up 21.2 percent over the previous year. Net income reached ¥9,270 million (US$35.7 million), up 28.9 percent from last year, and rose to ¥115.2 (US$0.443) on a per share basis, up 28.9 percent. Each year since the company's first business year in 1974, we have recorded improvement in both net sales and net income.

The major financial indicators of profitability increased across the board. Return on revenue improved 1.2 points to 13.0 percent; return on total assets increased 0.7 points to 11.9 percent; and return on stockholders' equity reached 23.7 percent, up 0.8 points. These figures are at the highest level of those for Japan's retail industry and demonstrate that Seven-Eleven's strategies are correct.

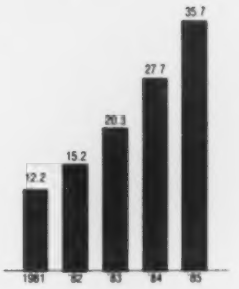
Net Sales
(Million U.S. dollars)



Strategic Focuses during the Year

Market penetration was our first strategic focus. We refrained from expanding our operation into new prefectures in fiscal 1985 in order to more deeply penetrate existing markets. We opened 315 new stores in the Tokyo metropolitan area and 16 other prefectures where existing stores are located. We closed 17 older units during the year. By following this program, Seven-Eleven has demonstrated that it can dominate markets even when facing established competitors. We know too, however, that we have the management systems and strength to prevail even in areas where other convenience stores have preceded us. For example, despite there having been many other convenience store operations in the Miyagi market when we began to enter it three years ago, over one-quarter of the convenience stores in that market now are 7-Eleven stores.

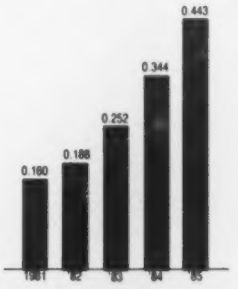
Net Income
(Million U.S. dollars)



Improvement of inventory management is the key to achieving faster inventory turnover, our second main focus. Stocking shelves with fast-moving items requires the identification of slow-moving items. This is made possible by a continuous program to enrich our inventory management systems. That program allows us better access to our customers and their needs, and to have the right item on the shelf — the very fundamentals of retailing.

Precise inventory management is essential for two reasons. First, our stores have limited space. 7-Eleven stores offer 3,500 items of merchandise in only 100 square meters of floor space with no storage space other than the merchandise shelf. Second, merchandise lifecycles continue to shorten as a result of new product developments and changing consumer tastes. Seven-Eleven annually replaces nearly half of the 3,500 items typically carried in its stores to keep pace.

Net Income per Share
(U.S. dollars)



Our ten-year trends for inventory level, gross margin, and average daily sales per store clearly show the importance of inventory management. Lower inventories reduce loss and mark-downs and improve product freshness, thereby improving gross margin. Daily sales also increase because more fast-moving products are on the shelf, and customers appreciate the freshness, and are confident that we will have what they want. Average daily sales for the stores operating more than one year rose 7.9 percent in fiscal 1985.

Toshifumi Suzuki, President, and Masatoshi Ito, Chairman

Key Strategies Distinguish Seven-Eleven

Store Information System

The success of the programs described above was made possible by earlier investments by Seven-Eleven in a modern, efficient retail system. These investments have transformed Seven-Eleven into a highly profitable, highly efficient operation and are what make Seven-Eleven different.

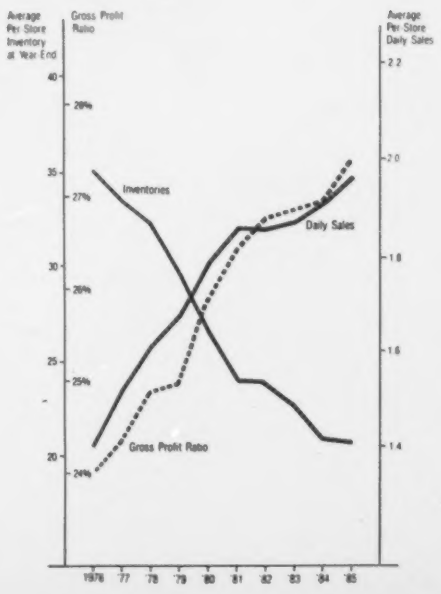
The greatest investment has been in the store information system which links all 7-Eleven stores, vendors and manufacturers with Seven-Eleven headquarters. Our point of sales (POS) and the electronic order booking (EOB) systems, introduced in 1982, provide the information and responsiveness necessary for highly accurate inventory management. We continue to work to improve our store information system, and we are the first retailer in Japan to use a value added network (VAN) system. We developed software for this information system as a member of a group of specialized companies each charged with some aspect of its hardware or software. Our expertise in the application of data systems to retailing is unrivaled.

Data Systems Benefit Franchisees

The POS system identifies slow-moving inventory items which can be discontinued and the optimum level of fast-moving items to minimize costs due to spoilage when over-stocked, and lost sales when under-stocked. The EOB system enables a franchisee to maintain the optimum level of stock through ordering efficiency. These operating systems are beyond the resources of traditional mom and pop retailers. Governmental actions to restrain the expansion of large-scale retailers have not brought about any significant improvement in the condition of mom and pop stores. It is beyond the resources of mom and pop stores to respond to rapidly changing consumer requirements and ever shorter product lifecycles. The result is that these stores are not satisfying their customers. By becoming Seven-Eleven franchisees, these retailers have access to operating systems and management expertise which enable them to respond to rapidly changing consumer requirements.

Inventory, Gross Profit Ratio and Sales — 10-year Trends

(Thousand US dollars)



AVERAGE FIGURES FOR THE CHAINS IN THIS SURVEY

	1974 FIFTH SURVEY	1975 SIXTH SURVEY	1976 SEVENTH SURVEY	1978 EIGHTH SURVEY	1979 NINTH SURVEY	1980 TENTH SURVEY	1981 ELEVENTH SURVEY	1982 TWELFTH SURVEY	1983 THIRTEENTH SURVEY	1984 FOURTEENTH SURVEY	1985 FIFTEENTH SURVEY
Average Sales Per Store Per Day	$636	$658	$723	$751	$859	$978	$1,086	$1,222	$1,310	$1,413	$1,509
Sales Growth (average day this year versus average day last year)	$ +50	+22	+65	+28	+108	+119	+112	+136	+88	+103	+96
Total Sales Per Store Per Year	$232,140	240,828	263,895	274,115	313,535	356,970	396,390	446,030	478,150	515,745	550,785
Sales Per Store Per Week	$ 4,452	4,606	5,061	5,257	6,013	6,846	7,602	8,577	9,170	9,891	10,563
Total Pretax Profit on Sales Per Store Annually	$ 7,723	8,762	9,194	10,026	12,052	13,935	14,687	18,870	18,338	19,786	19,089
Total After Tax Profit Per Store Annually	$ 3,978	4,523	4,752	5,431	6,395	8,964	8,628	10,705	10,574	12,837	14,691
Pretax Profit Per Store Per Day	$ 21.16	23.94	25.19	27.47	33.02	38.18	40.24	51.70	50.24	54.21	52.30
After Tax Profit Per Store Per Day	$ 10.90	12.36	13.02	14.88	17.52	24.56	23.63	29.33	28.97	35.17	40.25
Percentage of Profit Pretax on Store Sales	3.32%	3.64%	3.56%	3.65%	3.84%	3.90%	3.70%	4.23%	3.90%	3.90%	3.52%
Percentage of Profit after Tax on Store Sales	1.71%	1.92%	1.84%	1.98%	2.04%	2.51%	2.17%	2.40%	2.25%	2.52%	2.71%

STATUS OF SALES, MARGIN, EXPENSE, AND PROFIT

Note the following recap of these important areas. They have been broken down on a per store per day basis.

YEAR	SALES	COGS*	STORE MARGIN	GASOLINE** MARGIN	TOTAL MARGIN	EXPENSES	AVERAGE PRETAX PROFIT PER DAY	SALES GROWTH	EXPENSE GROWTH	PROFIT GROWTH
1971	$495	$356.40	$138.60	$10.00	$148.60	$134.15	$14.45	Base Yr.	Base Yr.	Base Yr.
1972	530	381.60	148.40	10.00	158.40	140.67	17.73	$ 35	$6.52	$+3.28
1973	479	416.55	162.12	20.00	182.12	163.37	18.78	49	22.70	+1.05
1974	486	421.92	164.08	20.00	184.08	164.24	19.84	7	.87	+1.06
1975	636	473.76	178.05	25.00	203.05	181.89	21.16	50	17.65	+1.32
1976	658	473.76	184.24	25.00	209.24	185.30	23.94	22	3.41	+2.78
1977	723	520.56	202.44	25.00	227.44	202.25	25.19	65	16.95	+1.25
1978	751	540.72	210.28	25.00	235.28	207.81	27.47	23	5.56	+2.28
1979	859	618.48	240.52	24.18	264.70	231.68	33.02	108	23.87	+5.55
1980	978	704.29	273.88	36.69	310.57	272.39	38.18	119	40.71	+5.16
1981	1,086	781.92	304.08	34.67	338.75	298.51	40.24	112	26.12	+2.06
1982	1,222	879.84	342.16	38.10	380.26	328.56	51.70	136	30.05	+11.46
1983	1,310	943.20	366.80	30.19	396.99	346.75	50.24	88	18.19	-1.46
1984	1,413	989.10	423.90	40.98	464.88	410.67	54.21	103	63.92	+3.97
1985	1,509	1,056.30	452.70	57.33	510.03	457.73	52.30	96	47.06	-1.91
Change Since 1971:	$1,014	$699.90	$314.10	$47.33	$361.43	$323.58	$37.85	$1,014	$323.58	$37.85

*Assuming a 72% Cost of Goods Sold on store merchandise for the years 1971 through 1983. Beginning this year we are using a 70% Cost of Goods Sold.

**Gas Margin: An arbitrary gasoline Margin Dollars Per Day was used between 1971 and 1978. Beginning in 1979, the daily gas margin per day per gasoline dispensing unit of National Convenience Stores was used. This figure was multiplied by the percentage of stores with gasoline units in the survey for the year to arrive at this daily gasoline margin figure (NCS gasoline margin of $105.58 per gasoline unit per day times 54.3% makes margin of $57.33 per store per day for the 13,964 stores in the Survey).

AGGREGATE ANNUAL PROFIT AND LOSS STATEMENT

FOR THE NINE CHAINS IN THE SURVEY IN 1983
AND THE NINE CHAINS IN THE SURVEY IN 1984

	THIS YEAR	THIS YEAR PERCENT OF TOTAL	LAST YEAR	LAST YEAR PERCENT OF TOTAL
Total Store Sales	$7,409,151,572	100.00%	$6,667,200,100	100.00%
Cost of Goods Sold—Store	5,182,921,342	70.00%	4,667,040,000	70.00%
Store Gross Margin	2,226,230,230	30.00%	2,000,160,100	30.00%
Gasoline Margin	281,375,000		196,527,780	
Total Margin	2,507,605,230		2,196,687,880	
Expense	2,246,538,000		1,936,701,299	
Net Profit Before Income Tax	261,067,230		259,986,581	
Net Profit After Income Tax	200,907,589		168,647,931	

DAILY PROFIT AND LOSS STATEMENT OF THE AVERAGE STORE

FOR THE NINE CHAINS INCLUDED IN THE SURVEY IN 1983
AND THE NINE CHAINS IN THE SURVEY IN 1984

	THIS YEAR	THIS YEAR PERCENT OF TOTAL	LAST YEAR	LAST YEAR PERCENT OF TOTAL
Store Sales	$1,509.00	100.00%	$1,413.00	100.00%
Cost of Goods Sold—Store	1,056.30	70.00%	989.10	70.00%
Store Gross Margin	452.70	30.00%	423.90	30.00%
Gasoline Margin	57.33		40.98	
Total Margin	510.03		464.88	
Expense	457.73		410.67	
Net Profit Before Income Tax	52.30		54.21	
Net Profit After Income Tax	40.25		35.17	

ANNUAL PROFIT AND LOSS STATEMENT OF THE AVERAGE STORE

FOR THE NINE CHAINS INCLUDED IN THE SURVEY IN 1984
AND THE NINE CHAINS IN THE SURVEY IN 1985

	THIS YEAR	THIS YEAR PERCENT OF TOTAL	LAST YEAR	LAST YEAR PERCENT OF TOTAL
Store Sales	$550,785	100.00%	$515,745	100.00%
Cost of Goods Sold—Store	385,549	70.00%	361,021	70.00%
Store Gross Margin	165,236	30.00%	154,723	30.00%
Gasoline Margin	20,925*		14,957	
Total Margin	186,161		169,681	
Expense	167,071		149,891	
Net Profit Before Income Tax	19,089		19,790	
Net Profit After Income Tax	14,691		12,837	

*Assuming gas margin of $57.33 per store per day for all stores in the Survey.
Gas margin in the stores with gasoline would be higher. Note total gasoline margin only 11.24% of total margin dollars.

PROFIT PER STORE PER DAY

The average profit (unadjusted for inflation) decreased 3.52% or $1.91 per store per day for the year. Five chains were up and four chains were down. Last year the Survey average was $54.21 per store per day in pretax profit and this year the average is $52.30 per store per day.

PRETAX DOLLARS OF PROFIT PER DAY

DOLLARS PER DAY PROFIT RANKING	COMPANY	NUMBER OF STORES	PRETAX PROFIT PER STORE PER DAY
1	Shop & Go	446	$116.77
2	Circle K	2,669	65.91
*3	National Convenience Stores	1,130	58.33
4	Southland	7,473	50.80
5	Casey's	482	44.75
6	Sunshine Jr.	336	28.16
*7	Munford	835	24.71
8	Dairy Mart	200	23.98
*9	CONNA	393	13.05
Total Stores In Survey		13,964	
Average Dollars Profit Per Store Per Day			$52.30

*FIFO Inventory Valuation For Store Inventories

PRETAX PROFIT GROWTH SCHEDULE

DOLLARS PER DAY PROFIT RANKING	COMPANY	PRETAX PROFIT PER STORE PER DAY GROWTH OVER LAST YEAR
1	Shop & Go	$ +9.09
2	Circle K	-5.27
3	National Convenience Stores	-17.42
4	Southland	-4.78
5	Casey's	+14.19
6	Sunshine Jr.	+7.73
7	Munford	+5.21
8	Dairy Mart	-7.63
9	CONNA	+13.65
Average profit decreased per store per day over last year		$-1.91
Average profit decreased per store per day over last year		-3.52%

SALES GROWTH IN CONSTANT DOLLARS

Sales growth in constant dollars is an important indicator of past and future performance of retailing companies. We have computed the effect of inflation on sales dollars using the consumer price index as the multiplier. Our figures show wide variations in sales growth by store between the chains in this Survey.

In 1971, the average store sold $495 in merchandise each day. Fifteen years later, the average store sold $1,509 in inflated dollars. When $1,509 is adjusted for inflation since 1971, average store sales in 1984 were $569 in 1971 dollars. Constant dollar sales increased 15% per store per day in the fourteen year period. Average store sales increased by $96 this year in current dollars. Based on the 14th Survey, average store sales need only have increased by $80 to keep pace with inflation.

In 1971, most stores operated sixteen hours per day. In 1984, most operated 24 hours per day. By increasing their operating hours by half again, most of the chains in the Survey have barely managed to keep up with their 1971 sales in constant dollars.

SALES COMPARISON

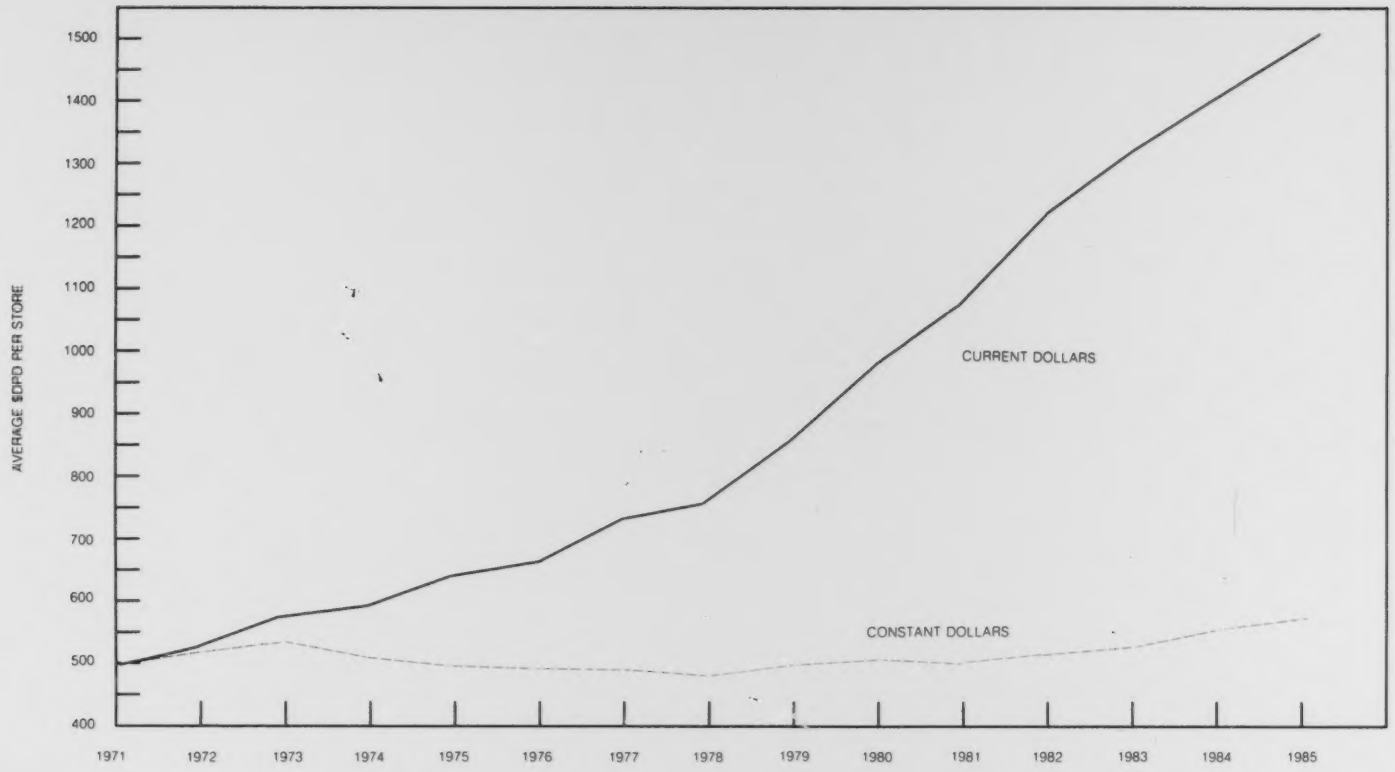
CURRENT DOLLAR SALES VERSUS
CONSTANT DOLLAR SALES FOR THE NINE CHAINS IN THE SURVEY

DOLLARS PER DAY PROFIT RANKING	COMPANY	1971 $DPD AVERAGE DAILY SALES	1985 $DPD AVERAGE DAILY SALES	SALES GROWTH 14 YR. PERIOD CURRENT DOLLARS	PERCENT SALES INCREASE IN CURRENT DOLLARS	1985 AVERAGE DAILY SALES IN CONSTANT DOLLARS	SALES GROWTH FOR 14 YR. PERIOD IN CONSTANT DOLLARS	PERCENT SALES GROWTH IN CONSTANT DOLLARS
1	Shop & Go	$ 532	$1,164	$ +632	119%	$438	$ -94	-18%
2	Circle K	535	1,216	+681	127%	458	-77	+14%
3	National Convenience Stores	418	1,393	+975	233%	525	+107	+25%
4	Southland	564	1,773	+1,209	214%	669	+105	+19%
5	Casey's	707*	814	+107*	15%*	671	-36	-5%
6	Sunshine Jr.	370	651	+281	76%	245	-125	-34%
7	Munford	307	931	+624	203%	356	+49	+16%
8	Dairy Mart	1,045*	1,147	+102*	10%*	945	-100	-10%
9	CONNA	877	1,707	+830	95%	643	-234	-27%
TOTAL		$ 495†	$1,509	$+1,014	205%	$569	$ +74	+15%

*Base Year 1981
†1971 Average for chains in the Survey at that time

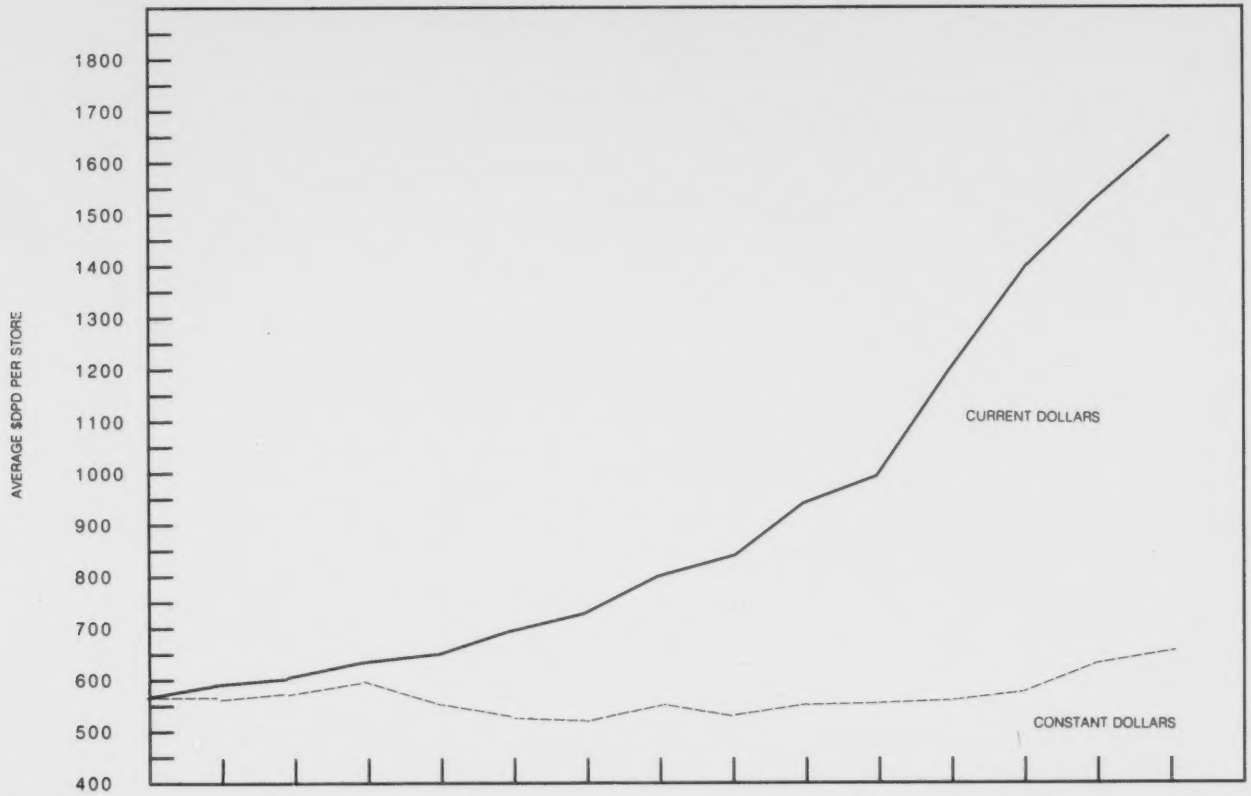
1985 CPI is 265.18% of 1971 CPI
1985 CPI is 121.34% of 1981 CPI

SALES COMPARISON
CURRENT VERSUS CONSTANT DOLLAR SALES FOR THE SMALL FOOD INDUSTRY



	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Sales Reported in $DPD Survey	$495	$530	$579	$586	$636	$658	$723	$751	$859	$978	$1.086	$1.222	$1.310	$1.413	$1.509
Constant Dollars Adjusted for Inflation	$495	$513	$541	$500	$485	$471	$492	$478	$500	$500	$497	$516	$532	$563	$569
Real Sales Growth from Base Year Sales		+$18	+$46	+$5	−$10	−$24	−$3	−$17	+$5	+$5	+$2	+$21	+$36	+$68	+$74
CPI—Urban Consumers 1967 = 100	119.2	123.2	127.7	139.7	156.1	166.7	175.3	187.2	204.7	233.2	260.5	282.5	293.1	299.1	316.1

SALES COMPARISON
CURRENT VERSUS CONSTANT DOLLAR SALES FOR SOUTHLAND



	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Average $DPD Sales in Current Dollars	$564	$598	$624	$653	$708	$731	$813	$841	$950	$1,087	$1,219	$1394	$1,532	$1,656	$1,773
Constant Dollar Sales Adjusted for Inflation	$564	$578	$583	$557	$540	$523	$553	$535	553	$556	$558	$588	$623	$660	$669
Real Sales Growth from Base Year Sales		+$14	+$19	−$7	−$24	−41	−$11	−$28	$11	−$8	−$6	+$24	+$59	+$96	+$105
CPI-Urban Consumers 1967 = 100	119.2	123.2	127.7	139.7	156.1	166.7	175.3	187.2	204.7	233.2	260.5	282.5	293.1	299.1	316.1

STORE SALES VERSUS THE CONSUMER PRICE INDEX

YEAR	JANUARY 1 CONSUMER PRICE INDEX	AVERAGE DAILY SALES $DPD SURVEY	AVERAGE DAILY SALES NEEDED TO KEEP PACE WITH CPI*	AVERAGE ANNUAL SALES $DPD SURVEY	AVERAGE ANNUAL SALES NEEDED TO KEEP PACE	DEVIATION FROM INFLATION PACE
1971	119.2	$ 495		$180.675	$ 0	$ 0
1972	123.2	530	$ 512	193,450	186,817	+6,633
1973	127.7	579	530	211,335	193,502	+17,833
1974	139.7	586	580	213,890	211,751	+2,139
1975	156.1	636	658	232,140	236,684	-4,544
1976	166.7	658	692	240,828	252,583	-11,755
1977	175.3	723	728	263,895	265,772	-1,877
1978	187.2	751	777	274,115	283,659	-9,544
1979	204.7	859	850	313,535	310,218	+3,317
1980	233.2	978	968	356,970	353,400	+3,570
1981	260.5	1,086	1,082	396,390	394,930	+1,460
1982	282.5	1,222	1,173	446,030	428,199	+17,831
1983	293.1	1,310	1,217	478,150	444,205	+33,945
1984	299.1	1,413	1,242	515,745	453,330	+62,415
1985	316.1	1,509	1,312	550,785	479,113	+71,672

*Based on first Survey

SALES GROWTH RANKING

IN CONSTANT DOLLARS OVER THEIR BASE YEAR

CONSTANT DOLLAR SALES GROWTH RANKING	COMPANY	SALES GROWTH OR LOSS IN CONSTANT DOLLARS	SALES GROWTH OR LOSS OVER BASE YEAR
1	National Convenience Stores	$+107	+25%
2	Southland	+105	+19%
3	Munford	+49	+16%
4	Casey's	-36	-5%
5	Circle K	-77	-14%
6	Shop & Go	-94	-18%
7	Dairy	-100	-10%
8	Sunshine Jr.	-125	-34%
9	CONNA	-234	-27%
	Totals	$ +74	+15%

AVERAGE SALES PER STORE PER DAY RANKING AND THIS YEAR'S SALES GROWTH VERSUS INFLATION

AVERAGE SALES PER DAY RANKING	COMPANY	SALES PER STORE PER DAY	SALES GROWTH PER STORE PER DAY THIS YEAR	SALES INCREASE THIS YEAR OVER LAST YEAR	SALES NEEDED TO KEEP PACE WITH CPI	SALES INCREASE OR DECREASE IN CONSTANT DOLLARS
1	Southland	$1,773	$+117	+7%	$1,750	$+23
2	CONNA	1,707	+97	+6%	1,701	+6
3	National Convenience Stores	1,393	+26	+2%	1,445	-52
4	Circle K	1,216	+77	+7%	1,204	+8
5	Shop & Go	1,164	+118	+11%	1,105	+59
6	Dairy Mart	1,147	-47	-4%	1,262	-115
7	Munford	931	+86	+10%	893	+38
8	Casey's	814	+8	+1%	852	-38
9	Sunshine Jr.	651	+93	+16%	590	+61
	Averages	$1,509	$+96	+6.8%	$1,493	$+16

All sales are for food stores sales only. Gasoline has been excluded, so sales are comparable among companies.
To adjust to 1985 dollars, the CPI for January, 1985 was divided by the CPI for January, 1984 (316.1 divided by 299.1 = 1.0568).

CURRENT VERSUS CONSTANT DOLLAR SALES FOR SOUTHLAND

The 1971 10K for Southland states that most stores operated from 7 a.m. to 11 p.m. The 10K states the vast majority of 7-Eleven stores operated 24 hours a day. This schedule shows that 7-Eleven's sales increased from $564 per store per day in 1971 to $669 in 1984 (in constant 1971 dollars). This is an increase of $+105 or 19%. If night sales are less than 19% of total sales, 7-Eleven has a real increase in average store sales. If night sales are more than 19% of total sales, 7-Eleven has had a decrease in average store sales.

PROFIT GOAL

In our first survey in 1971, we established a profit goal for the industry of $30 per store per day. We felt $30 was a reasonable return on the amount of capital invested at that time in the average store of that time. Our $30 figure was based, however, on the value of money in 1971. Because of inflation, it takes $79.58 per store per day to equal $30.00 in 1971 dollars. This year, Shop & Go averaged $116.77 per store per day in pretax profit. This amounted to $44.03 in constant 1971 dollars, and again exceeds our original profit goal.

Inflation And Profit Goals

In this report, we have used the Consumer Price Index for all urban consumers (1967 = 100) as supplied by the U.S. Department of Labor. We have used the January dollars. Divide the CPI for January 1985 by the CPI for January 1971; 316.1 divided by 119.2 = 2.6518; then divide the current figure by 2.6518 to arrive at the constant dollar figure. In the Survey, pretax profits have increased from an average of $14.45 per store per day in 1971 to an average of $52.30 in 1985. If the $52.30 pretax profit is adjusted for inflation ($52.30 divided by 2.6518), you arrive at a constant dollar pretax figure of $19.72 (in 1971 dollars). Thus, in 1971 dollars, profits have risen $5.27 per store per day, or 36%. This is quite an improvement, but still only 66% of our original profit goal for average invested capital in 1971. To follow the increase of sales versus inflation, check the other sales schedules that appear in this report.

PROFIT VERSUS CONSUMER PRICE INDEX

YEAR	JANUARY 1 CPI	AVERAGE PROFIT PER DAY	AVERAGE PROFIT PER DAY NEEDED TO KEEP PACE WITH CPI (CURRENT DOLLARS)	PROFIT GOAL OF $30.00 PER DAY IN CURRENT DOLLARS
1971	119.2	$14.45		$30.00*
1972	123.2	17.73	$14.94	31.02
1973	127.7	18.78	15.47	32.13
1974	139.7	19.84	16.93	35.16
1975	156.1	21.16	18.92	39.30
1976	166.7	23.94	20.20	41.94
1977	175.3	25.19	21.25	44.13
1978	187.2	27.47	22.69	47.10
1979	204.7	33.02	24.51	51.51
1980	233.2	38.18	28.26	58.68
1981	260.5	40.24	31.57	65.55
1982	282.5	51.70	34.24	71.10
1983	293.1	50.24	35.53	73.76
1984	299.1	54.21	36.28	75.29
1985	316.1	52.30	38.31	79.55

*Based on First Survey

PERTINENT INFORMATION ON STORE OPENINGS AND CLOSINGS IN THE LAST ELEVEN YEARS

FISCAL YEARS ENDINGS DECEMBER 31, 1974 AND THEREAFTER

	SHOP & GO	CIRCLE K	NATIONAL CONVENIENCE STORES	SOUTHLAND	CONNA	SUNSHINE JR.	MUNFORD	CASEY'S[1] GENERAL STORES	DAIRY MART[2]	TOTALS
Number of Stores in 5th Year Survey	240	947	801	4,801	218	215	1,348	226	73	8,869
Stores Closed Since 1974	98	228	549	2,883	122	103	877	2	55	4,917
Closure Rate	41%	24%	69%	60%	56%	48%	65%	.9%	75%	55%
Stores Opened or Acquired Since Fifth Survey	304	1,950	878	5,555	297	224	364	258	182	10,012
Stores in Operation in Fifteenth Survey	446	2,669	1,130	7,473	393	336	835	482	200	13,964
Net Store Growth	+206	+1,722	+329	+2,672	+175	+121	-513	+256	+127	+5,095
Growth on Base Year	86%	182%	41%	56%	80%	56%	-38%	113%	173%	57%

1. Casey's figures since 4/30/79.
2. Dairy Mart figures since 1/31/79.

STORE GROWTH SCHEDULE FOR THE YEAR

DOLLARS PER DAY PROFIT RANKING	COMPANY	STORES PURCHASED	STORES OPENED	STORES CLOSED OR SOLD	NET STORE GROWTH
1	Shop & Go	None	22	6	+16
2	Circle K	456	61	33	+484
3	National Convenience Stores	9	84	44	+49
4	Southland	None	398	224	+174
5	Casey's	None	55	0	+55
6	Sunshine Jr.	None	7	16	-9
7	Munford	None	not given	not given	-81
8	Dairy Mart	16	15	7	+24
9	CONNA	None	9	21	-12
	Total	+481	+651	-351	+700

STORE CLOSINGS DURING THE YEAR

DOLLARS PER DAY PROFIT RANKING	COMPANY	STORES CLOSED OR SOLD	PERCENT OF STORES OPERATED AT YEAR'S END
1	Shop & Go	6	1.34%
2	Circle K	33	1.23%
3	National Convenience Stores	44	3.89%
4	Southland	224	2.99%
5	Casey's	0	—
6	Sunshine Jr.	16	4.76%
7	Munford	not given	—
8	Dairy Mart	7	3.50%
9	CONNA	21	5.34%
	Total	351	2.51%

These nine chains operated a total 13,964 stores at the close of their last fiscal year.

1974 Fourth Annual Survey showed 172 store closings; net store growth of 1,042 stores.
1975 Fifth Annual Survey showed 244 store closings; net store growth of 928 stores.
1976 Sixth Annual Survey showed 315 store closings; net store growth of 672 stores.
1977 Seventh Annual Survey showed 464 store closings; net store growth of 360 stores.
1978 Eighth Annual Survey showed 399 store closings; net store growth of 644 stores.
1979 Ninth Annual Survey showed 755 store closings; net store growth of 323 stores.
1980 Tenth Annual Survey showed 789 store closings; net store growth of 247 stores.
1981 Eleventh Annual Survey showed 426 store closings; net store growth of 205 stores.
1982 Twelfth Annual Survey showed 595 store closings; net store growth of 107 stores.
1983 Thirteenth Annual Survey showed 463 store closings; net store growth of 266 stores.
1984 Fourteenth Annual Survey showed 559 store closings; net store growth of 1,197 stores.
1985 Fifteenth Annual Survey showed 351 store closings; net store growth for the surveyed chains of 1,197 stores.

In total, the Survey has recorded 5,532 store closings in the past twelve years.

STORE CLOSINGS BY COMPANY FOR THE LAST ELEVEN YEARS

FISCAL YEARS ENDING DECEMBER 31, 1974 AND THEREAFTER

		SHOP & GO	SUNSHINE JR.	SOUTHLAND	CIRCLE K	CONNA	MUNFORD	NATIONAL CONVENIENCE	DAIRY MART	CASEY'S GENERAL STORES
1975	5th	2	—	142	12	—	—	71	—	—
1976	6th	—	—	158	24	4	—	79	—	—
1977	7th	5	3	154	24	17	112	38	—	—
1978	8th	9	6	254	12	8	N/A	18	—	—
1979	9th	19	9	308	24	7	273	29	None	—
1980	10th	9	8	460	22	8	119	28	2	—
1981	11th	12	11	281	28	7	N/A	42	2	—
1982	12th	21	16	267	N/A	8	155	73	23	1
1983	13th	8	17	271	10	12	N/A	92	11	1
1984	14th	7	17	364	31	30	43	35	10	0
1985	15th	6	16	224	33	21	not given	44	7	0
Totals		98	103	2,883	228	122	877*	549	55	2

*The Munford 10K states they closed 492 stores between 1980 and 1984. When you add the 385 closures of 1977 and 1979, it is obvious Munford closed at least 877 stores since 1977.

NEW STORES PLANNED

DOLLARS PER DAY PROFIT RANKING	COMPANY	STORES PLANNED AS STATED IN LAST YEAR'S ANNUAL REPORT	ACTUAL NET NEW STORES OPENED OR ACQUIRED	STORES PLANNED THIS YEAR AS STATED IN THIS YEAR'S ANNUAL REPORT
1	Shop & Go	25 to 30 stores	+16	24–29 stores since purchased by Circle K
2	Circle K	60 in development stages	+484	180 in development
3	National Convenience Stores	112 new stores	+49	130 new stores
4	Southland	146 under construction 12/31/83	+174	Doesn't state
5	Casey's	50 new store openings	+55	60 planned
6	Sunshine Jr.	6 sites under development	–9	25 in 1985
7	Munford	40-50 new gas/food combinations	–81	40 new stores this year
8	Dairy Mart	20-25 stores in Fiscal 1985	+24	20 new stores + acquisitions
9	CONNA	15-25 stores to be added this year	–12	Approximately 20 new stores in Fiscal 1986
Totals		509-539	+700	499-504

STORES OWNED VERSUS LEASED

AS NOTED IN THE ANNUAL REPORTS AND 10K'S

DOLLARS PER DAY PROFIT RANKING	COMPANY	STORES IN OPERATION	STORES WITH REAL ESTATE OWNED	INCREASE OR DECREASE FROM LAST YEAR IN STORES OWNED	STORES LEASED
1	Shop & Go	446	236	N/A	210
2	Circle K	2,669	122	+3	2,547
3	National Convenience Stores	1,130	226	+9	904
4	Southland	7,473	1,795	+207	5,678*
5	Casey's	482	150	+32	332
6	Sunshine Jr.	336	51	–6	285
7	Munford	835	30	None	805
8	Dairy Mart	200	30	+7	170
9	CONNA	393	None	None	393
	Total	13,964			

*Southland leases 1,358 stores from the Southland Employees Trust.

INDUSTRY LEADERS IN NINE PUBLICLY OWNED COMPANIES

BASED ON INFORMATION FROM PROXY STATEMENTS

QUALIFICATION AS AN INDUSTRY LEADER BASED ON POSITION, SALARY, OR STOCK OWNERSHIP

DOLLARS PER DAY PROFIT RANKING	COMPANY	NAME	AGE	POSITION	SALARY	DIFFERENCE FROM LAST YEAR	PERCENT OF OWNERSHIP	CASH DIVIDENDS ON STOCK OWNERSHIP
1	Shop & Go	Robert Jaeb	74	Chairman & CEO	$191,369	$ +11,249	28%	512,654
		Lorena Jaeb	65	Executive VP, Treasurer	140,408	+9,375	27%	482,070
2	Circle K	Karl Eller	57	Chairman & CEO	320,288	+153,621	5%	415,214
3	National Convenience Stores	V.H. VanHorn	47	President & CEO	399,924	-126,102	1%	95,954
4	Southland	John P. Thompson	59	Chairman & CEO	607,334	-22,778	11%	4,698,440
		Jere W. Thompson	53	President	563,820	-21,284	7%	3,117,189
5	Casey's	Donald F. Lamberti	47	President	431,366	+118,364	29%	None
6	Sunshine Jr.	Leona Lewis	76	Chairman	—	—	55%	444,926
7	Munford	Dillard Munford	66	Chairman & CEO	342,880	-109,010	7%	137,989
8	Dairy Mart	Charles Nirenberg	61	Chairman	161,442	+12,442	30%	None
9	CONNA	Joe Peden	55	Chairman & CEO	111,223	+1,223	12%	10,506

Average Age:

11th Survey 57.31 years
12th Survey 59.93 years
13th Survey 59.80 years
14th Survey 59.23 years
15th Survey 60.00 years

SALARY SCHEDULE OF TWO HIGHEST PAID EXECUTIVES AND OF THE BOARD OF DIRECTORS

DOLLARS PER DAY PROFIT RANKING	COMPANY	HIGHEST PAID EXECUTIVE	$DPD COST PER STORE	SECOND HIGHEST PAID EXECUTIVE	$DPD COST PER STORE	OFFICERS & DIRECTORS AS A GROUP	$DPD COST PER STORE	NUMBER INCLUDED AS OFFICERS & DIRECTORS
1	Shop & Go	$ 191,369	$1.20	$ 140,408	$ .88	$ 663,969	$4.16	10
2	Circle K	320,288	.35	219,628	.24	1,762,027	1.96	17
3	National Convenience Stores	399,924	.99	224,476	.55	1,784,541	4.42	13
4	Southland	607,334	.22	563,820	.21	5,977,433	2.21	31
5	Casey's	431,366	2.65	431,366	2.65	1,304,098	7.86	5
6	Sunshine Jr.	159,365	1.29	130,750	1.05	592,170	4.78	7
7	Munford	342,880	1.05	241,140	.74	1,104,408	3.40	8
8	Dairy Mart	161.442	2.34	90,692	1.32	461,228	6.70	10
9	CONNA	111,223	.76	101,223	.70	683,926	4.71	14
	Totals	$2,725,191		$2,143,503		$14,333,800		115
	Average this year	$ 302,799	$ .61	$ 238,167	$ .48	$ 1,592,644	$3.19	
	Average last year	$ 295,632	$ .67	$ 216,999	$ .49	$ 1,690,409	$3.88	
	Average change from last year	$ +7,167	$-.06	$ +21,168	$-.01	$ -97,765	$-.69	

ANALYSIS OF STOCK HOLDINGS BY STOCKHOLDERS AND DIRECTORS

AS STATED IN THE COMPANY'S PROXY STATEMENT

DOLLARS PER DAY PROFIT RANKING	COMPANY	APPROXIMATE NUMBER OF SHAREHOLDERS	STOCK OUTSTANDING RECORD DATE	NUMBER OF SHARES HELD BY LARGEST STOCKHOLDER IN PROXY	PERCENT OF OWNERSHIP	NUMBER OF SHARES HELD BY SECOND LARGEST STOCKHOLDER IN PROXY	PERCENTAGE OWNERSHIP	NUMBER OF SHARES HELD BY DIRECTORS AS A GROUP	PERCENT OF OWNERSHIP BY OFFICERS & DIRECTORS AS A GROUP
1	Shop & Go	1,580	10,097,166	2,848,081	28%	2,678,171	27%	5,822,923	58%
2	Circle K	3,300	12,160,133	2,291,322	19%	1,510,976	12%	4,684,979	36%
3	National Convenience Stores	1,648	22,995,327	3,440,860	15%	1,381,792	6%	1,820,106	8%
4	Southland	8,614	47,357,637	9,416,400	20%	2,989,850	6%	6,715,422	14%
5	Casey's	704	4,537,449	1,323,000	29%	369,750	8%	1,837,650	41%
6	Sunshine Jr.	577	1,701,650	926,931	55%	20,053	1%	949,732	56%
7	Munford	N/A	4,096,139	399,156	10%	267,422	7%	453,193	11%
8	Dairy Mart	1,200	1,166,292	346,225	30%	346,225	30%	710,615	61%
9	CONNA	1,075	1,127,383	131,336	12%	66,999	6%	328,484	29%

STOCK VALUATION SCHEDULE

DOLLARS PER DAY PROFIT RANKING	COMPANY	BOOK VALUE END OF YEAR COVERED IN REPORT	STOCK OUTSTANDING AS OF RECORD DATE	WHERE LISTED	STOCK PRICE CLOSE 10/15/85	MARKET VALUE OF STOCK 10/18/85	TIMES EARNINGS
1	Shop & Go	$ 48,036,316	10,097,166	NASDAQ	Sold to Circle K 7/1/85 for 16½	$ 166,603,230	16
2	Circle K	122,613,000	12,160,133	NY	30⅛	366,263,200	11
3	National Convenience Stores	96,116,000	22,995,327	NY	9⅞	226,963,800	10
4	Southland	1,195,687,000	47,357,637	NY	37½	1,775,911,100	10
5	Casey's	22,107,862	4,537,449	NASDAQ	15¼	69,196,097	17
6	Sunshine Jr.	19,290,305	1,701,650	AMEX	20¾	35,309,237	12
7	Munford	57,953,000	4,096,139	NY	19¾	80,898,745	10
8	Dairy Mart	6,793,865	1,166,292	NASDAQ	18⅛	21,133,211	20
9	CONNA	8,875,000	1,127,383	OTC	12¼	13,810,441	—
	Totals	$1,577,472,348				$2,756,089,061	

RETURN ON AVERAGE SHAREHOLDER'S EQUITY

DOLLARS PER DAY PROFIT RANKING	COMPANY	RETURN ON SHAREHOLDER'S EQUITY 1983	RETURN ON SHAREHOLDER'S EQUITY 1984	INCREASE OR DECREASE
1	Shop & Go	25.9%	23.2%	-2.7%
2	Circle K	27.0%	31.2%	+4.2%
3	National Convenience Stores	22.8%	16.9%	-5.9%
4	Southland	15.4%	14.2%	-1.2%
5	Casey's	21.2%	21.1%	-.1%
6	Sunshine Jr.	10.4%	11.9%	+1.5%
7	Munford	16.2%	15.3%	-.9%
8	Dairy Mart	24.5%	20.5%	-4.0%
9	CONNA	.2%	-23.9%	-24.1%

INVENTORY ACCOUNTING METHOD USED

DOLLARS PER DAY PROFIT RANKING	COMPANY	LIFO	FIFO
1	Shop & Go*	X	X*
2	Circle K	X	
3	National Convenience Stores		X
4	Southland	X	
5	Casey's	X	
6	Sunshine Jr.	X	
7	Munford		X
8	Dairy Mart	X	
9	CONNA		X

*Shop & Go used Fifo for gasoline inventories.

EARNINGS AND CASH DIVIDENDS PAID PER SHARE DURING YEAR

DOLLARS PER DAY PROFIT RANKING	COMPANY	DIVIDENDS PAID COMMON STOCK	EARNINGS	DIVIDENDS TO EARNINGS RATIO
1	Shop & Go	$ .18	$1.01	18%
2	Circle K	.74	2.12	35%
3	National Convenience Stores	.36	.76	47%
4	Southland	.92	3.41	27%
5	Casey's	None	.90	—
6	Sunshine Jr.	.48	1.30	37%
7	Munford	.516	1.98	26%
8	Dairy Mart	None	1.11	—
9	CONNA	.08	—	—

COMMON STOCK PRICE RANGE AS SHOWN IN ANNUAL REPORT

DOLLARS PER DAY PROFIT RANKING	COMPANY	HIGH	LOW	CLOSING STOCK PRICE 10/18/85*
1	Shop & Go	13¾	7⅞	sold to Circle K 7/1/85 for 16½
2	Circle K	36	22⅜	30⅛
3	National Convenience Stores	18½	10½	9⅞
4	Southland	36½	23	37½
5	Casey's	18¼	8¾	15¼
6	Sunshine Jr.	17⅝	11⅛	20¾
7	Munford	24¼	15¾	19¾
8	Dairy Mart	13¼	8¾	18⅛
9	CONNA	10	5¾	12¼

*10/18/85 is after the close of the Fiscal Year for all the companies

ADDRESSES, TELEPHONE NUMBERS, AND DATE OF RECEIPT OF ANNUAL REPORT OF THE COMPANIES IN THE DOLLARS PER DAY SURVEY

1. Shop & Go
   P.O. Box 428
   Mango, Florida 33550
   813-689-8161
   Year Ended 3/28/85
   Annual Report Received 7/13/85

2. The Circle K Corporation
   4500 South 40th Street
   Phoenix, Arizona 85036
   602-437-0600
   Year Ended 4/30/85
   Annual Report Received 8/22/85

3. National Convenience Stores
   100 Waugh Drive
   Houston, Texas 77007
   713-863-2200
   Year Ended 6/30/85
   Annual Report Received 9/16/85

4. The Southland Corp.
   2828 North Haskell Avenue
   Dallas, Texas 75221
   214-828-7011
   Year Ended 12/31/84
   Annual Report Received 4/6/85

5. Casey's General Stores, Inc.
   1229 N.E. Broadway Avenue
   Des Moines, Iowa 50313
   515-263-3700
   Year Ended 4/30/85
   Annual Report Received 9/10/85

6. Sunshine Jr. Stores, Inc.
   June Avenue & 17th Street
   Panama City, Florida 32401
   904-769-1661
   Year Ended 12/27/84
   Annual Report Received 3/23/85

7. Munford, Inc.
   1860 Peachtree Road, N.W.
   Atlanta, Georgia 30309
   404-352-6641
   Year Ended 1/3/85
   Annual Report Received 4/1/85

8. Dairy Mart
   240 South Road
   Enfield, Connecticut 06082
   203-745-1661
   Year Ended 1/31/85
   Annual Report Received 6/15/85

9. CONNA Corporation
   981 South Third Street
   Louisville, Kentucky 40203
   502-584-1281
   Year Ended 5/26/85
   Annual Report Received 9/13/85

Year Covered:

This report covers the latest fiscal year reported by each of the chains. Years included in the Survey range from Sunshine Jr.'s fiscal years ending December 27, 1984, to National Convenience Stores' fiscal year, which ended June 30, 1985. The annual reports for the years were received by the stockholders, beginning with Sunshine Jr.'s and ending with National Convenience's report which was received on September 16, 1985. This schedule shows the date each company's fiscal year ended, as well as the date the reports were received by the stockholders.

THE EFFECT OF SOUTHLAND ON THE SURVEY
PROFIT COMPARISON: SOUTHLAND VERSUS THE EIGHT OTHER COMPANIES

Southland operates 54% of the stores included in the Survey. They make 65% of all the store sales of chains in the Survey. Since their results heavily affect the total results for the Survey, this chart shows the totals as they would appear if Southland were excluded.

	STORES	STORE DAYS	SMALL STORE SALES	AVERAGE SALES PER STORE PER DAY	SALES GROWTH PER STORE PER DAY	PRETAX PROFIT	AFTER TAX PROFIT	AFTER TAX PROFIT AS A PERCENT OF SALES	PRETAX PROFIT PER STORE PER DAY
Eight Companies Without Southland	6,491	2,288,025	$2,615,261,572	$1,143	$ +78	$123,731,260	$ 73,185,149	2.80%	$54.07
Southland	7,473	2,703,276	4,793,890,000	1,773	+117	137,335,970	127,722,440	2.66%	50.80
Nine Companies Including Southland	13,964	4,991,301 4,908,451*	7,409,151,572	1,509	+96	261,067,230	200,907,589	2.71%	52.30

*Casey's Store Sales for company operated stores only

SOUTHLAND COMPARED WITH OTHER PUBLICLY-OWNED COMPANIES IN THE SURVEY

ON A DOLLARS OF PROFIT PER SHARE PER DAY BASIS

	1971 FIRST SURVEY	1972 SECOND SURVEY	1973 THIRD SURVEY	1974 FOURTH SURVEY	1975 FIFTH SURVEY	1976 SIXTH SURVEY	1977 SEVENTH SURVEY	1978 EIGHTH SURVEY	1979 NINTH SURVEY	1980 TENTH SURVEY	1981 ELEVENTH SURVEY	1982 TWELFTH SURVEY	1983 THIRTEENTH SURVEY	1984 FOURTEENTH SURVEY	1985 FIFTEENTH SURVEY
Other Companies Without Southland	$11.44	$15.96	$17.10	$19.08	$17.28	$18.39	$18.37	$19.13	$24.83	$38.10	$32.44	$40.15	$38.63	$52.54	$54.07
Southland	17.15	19.35	20.38	20.64	25.45	30.04	32.19	35.71	40.79	38.42	46.44	60.67	59.34	55.58	50.80
Southland's Performance Versus the Average	$5.71	$3.39	$3.28	$1.56	$8.17	$11.65	$13.82	$16.58	$15.96	$.32	$14.00	$20.52	$20.71	$3.04	$-3.27
$DPD Survey Average — All Companies	$14.45	$17.73	$18.78	$19.84	$21.16	$23.94	$25.19	$27.47	$33.02	$38.18	$40.24	$51.70	$50.24	$54.24	$52.30
Southland	17.15	19.35	20.38	20.64	25.45	30.04	32.19	35.71	40.79	38.42	46.44	60.67	59.34	55.58	50.80
Southland's Performance Versus the Average	$2.70	$1.62	$1.60	$.80	$4.29	$6.10	$7.00	$8.24	$7.77	$.24	$6.20	$8.97	$9.10	$1.34	$-1.50

This is the first time in the 15 years of the Survey that Southland's Dollars Per Day performance has been below the average results of the other companies.

ELECTRICITY COSTS

Utilities are a fixed cost for a given installation and do not vary with sales. Utility costs are very important to the profit and loss structure of small food stores. This year, we've included some information about electricity costs in various parts of the country.

Since 1973, electric costs have risen faster than the rate of inflation. Utility costs are the third greatest operating expense in these stores, outranked only by salary and occupancy costs. Utility costs are much more volatile than the other two, because rates are set by public utility commissions and rate-setting is complex. There appears to be almost nothing the store operator can do to control price escalations in this area.

To begin a study of utility costs, we called the power company in the headquarter cities of the nine chains in the survey. We gave each of them the same specifications and asked that they compute the costs of an average kilowatt. Utility company costs vary because of the price and source of power, approach and expenditure on nuclear development, utilization rate, capital expenditure rate and expectation of future demand, management and personnel efficiency, and amount of influence over the state public utility commissioners. The specifications were:

15,000 KWH (30 days & 500 KWH usage per day)
50 KW billing demand

It's important to remember that each company and even each store within a company used a different number of KWH per day. The type of building, age, maintenance, cleanliness of equipment, climatic differences, hours of operation, and discipline of personnel all make a difference in actual daily electric usage.

Electric utility rates are a complex issue. They should be studied closely by the companies in this industry because the costs of electricity can spell the difference between profit and loss for a particular store, concept, or company. It should be obvious from looking at the schedule of percentage cost of sales for electric power that significant power savings (as a percentage of sales) results from higher average daily sales.

ELECTRICITY COSTS AS A PERCENT OF SALES COST

ASSUMING 500 KWH PER DAY AT VARYING SALES AND KWH COSTS

COST PER KWH	TOTAL DAILY ELECTRIC COST	$600	$700	$800	$900	$1,000	$1,100	$1,200	$1,500
$.12	$60	10.0%	8.6%	7.5%	6.7%	6.0%	5.5%	5.0%	4.0%
.11	55	9.1	7.9	6.9	6.1	5.5	4.2	4.6	3.7
.10	50	8.3	7.1	6.3	5.6	5.0	4.6	4.2	3.3
.09	45	7.5	6.4	5.6	5.0	4.5	4.1	3.8	3.0
.08	40	6.6	5.7	5.0	4.4	4.0	3.6	3.3	2.7
.07	35	5.8	5.0	4.4	3.9	3.5	3.2	2.9	2.3
.06	30	5.0	4.3	3.8	3.3	3.0	2.7	2.5	2.0
.05	25	4.2	3.6	3.1	2.8	2.5	2.3	2.1	1.7
.04	20	3.3	2.9	2.5	2.2	2.0	1.8	1.7	1.3

Kilowatt hours costs as a percent of sales are only 40% at $1,500 average sales of what they are at $600 in daily sales.

In June 1985 the highest cost per kilowatt hour in the United States was 16.43 cents in New York City. The lowest cost was 2.18 cents in Seattle, Washington (commercial rate, assuming 10,000 KWH, 40 KW demand). Source: *Electric Power Monthly,* U.S. Department of Energy, June 1985. Assuming these rates and 500 KWH of daily usage, the average electric bill for a small food store would be $2,465 monthly in New York City and $327 in Seattle, Washington. At $600 a day in sales and $82 a day in electric cost, electricity would be 13.7% of sales in New York City.

ELECTRICAL COSTS IN THE HEADQUARTER CITIES OF THE DPD FIRMS

CITY	POWER COMPANY	COMPANIES HEADQUARTERED	1982 KWH COST	1983 KWH COST	1984 KWH COST	1985 KWH COST	INCREASED COST PER KWH (1984 OVER 1983)	KWH COST (1985 OVER 1984)	1982 AVERAGE MONTHLY ELECTRIC BILL	1983 AVERAGE MONTHLY ELECTRIC BILL	1984 AVERAGE MONTHLY ELECTRIC BILL	1985 AVERAGE MONTHLY ELECTRIC BILL	1982 $DPD COST OF ELECTRICITY	1983 $DPD COST OF ELECTRICITY	1984 $DPD COST OF ELECTRICITY	1985 $DPD COST OF ELECTRICITY	$DPD OF ELECTRICITY INCREASE 1984 OVER 1983	$DPD OF ELECTRICITY INCREASE 1985 OVER 1984
1 Jacksonville, Florida	Jacksonville Electric Authority	Lil' Champ	7.9	7.9	8.8	—	.9	—	$1,185	$1,185	$1,316	—	$39.50	$39.50	$43.87	—	4.37	—
2 Atlanta, Georgia	Georgia Power Authority	Munford	7.3	7.5	7.8	7.8	.3	—	1,095	1,127	1,176	1,176	36.50	37.56	39.20	39.20	1.64	—
3 Tampa, Florida	Tampa Electric Company	Shop & Go	7.2	7.3	7.2	7.0	-.1	-.2	1,080	1,098	1,081	1,050	36.00	36.60	36.03	35.00	-.57	-1.03
4 Tampa, Florida	Tampa Electric Company	Little General	7.2	7.3	7.2	7.0	-.1	-.2	1,080	1,098	1,081	1,050	36.00	36.60	36.03	35.00	-.57	-1.03
5 Miami, Florida	Florida Power & Light	Mini Mart	6.7	7.2	—	—	N/A	—	1,080	1,085	—	—	38.50	33.50	—	—	N/A	—
6 Dallas, Texas	Dallas Power & Light	Seven Eleven	6.4	6.4	7.1	6.2	.7	-.9	960	963	1,058	936	32.00	32.16	35.27	31.20	3.11	-4.07
7 Houston, Texas	Houston Lighting & Power	National Convenience Stores	5.9	6.8	6.9	7.0	.1	.1	885	1,016	1,029	1,046	29.50	33.87	34.30	34.87	.43	.57
8 Panama City, Florida	Gulf Power Company	Sunshine Jr.	5.8	6.9	7.0	6.8	.1	-.2	870	1,085	1,050	1,018	29.00	34.50	35.00	33.93	.50	-1.07
9 Phoenix, Arizona	Salt River Project	Circle K	5.8	7.4	7.7	8.2	.3	.5	870	1,105	1,152	1,234	29.00	36.83	38.40	41.13	1.57	2.73
10 Louisville, Kentucky	Louisville Gas & Electric	CONNA	5.2	6.8	7.3	7.2	.5	-.1	780	1,013	1,092	1,081	26.00	33.77	36.40	36.03	2.63	-.37
11 Des Moines, Iowa	Iowa Power	Casey's General Stores	N/A	7.2	8.3	8.3	1.1	—	N/A	1,081	1,241	1,240	N/A	36.08	41.37	41.33	5.34	-.04
12 Enfield, Connecticut	Northeast Utilities	Dairy Mart	N/A	9.1	9.6	9.6	.5	—	N/A	1,360	1,443	1,443	N/A	45.33	48.10	48.10	2.77	—
Averages			6.52	7.33	7.72	7.51	.39	-.21	$981	$1,097	$1,156	$1,127	$32.70	$36.57	$38.54	$37.58	1.93	-.54

Percentage increase in the cost of electricity for the chains in the Survey last year was 5.6%.

Each increase of 1 cent a KWH increases the dollars per day of the cost of store operations by $5.00. Unless sales are increased, it would thus reduce profits by $5.00 a day or $1,825 a year. If a chain paid 9.6 cents per KWH for all of its electricity, its cost of operation over a chain paying 6.9 cents for all its kilowatts would be $13.50 a day higher. It would have a $4,928 higher yearly operating cost.

DOLLARS PER DAY SURVEY—FIRST ANNUAL REPORT 1972

CONVENIENCE STORE INDUSTRY RANKED BY PROFIT PER DAY

COMPANY	YEAR ENDED	STORES	STORE DAYS	CONVENIENCE STORE SALES	AVG. SALES PER DAY PER STORE	PRETAX PROFIT	AFTER TAX PROFIT	AFTER TAX PROFIT AS % OF SALES	PROFIT PER DAY PRETAX	PROFIT PER STORE AFTER TAX
Circle K	4/30/71	536	175,074	$ 93,607,624	$535	$ 5,846,536	$ 2,895,815	3.09%	$33.39	$16.54
Sunshine Jr.	12/31/70	98	31,766	11,753,761	370	614,711	321,494	2.73	19.35	10.12
Southland	12/31/70	3,734	1,327,056	748,949,792	564	22,757,874	11,283,353	1.50	17.15	8.50
UtoteM	2/28/71	496	167,936	65,579,870	391	2,636,864	1,276,689	1.95	15.70	7.60
Dillon	7/ 3/71	98	30,856	17,140,222	555	244,336	122,168	.71	7.27	3.95
Natl. Con.	6/30/71	487	172,113	72,000,000	418	1,220,101	760,101	1.05	7.09	4.41
Little General	12/26/70	497	181,405	61,721,000	340	1,152,370	576,185	.93	6.35	3.18
Jackson-Atl	1/ 2/71	928	338,720	103,900,023	307	1,985,471	981,148	.94	5.86	2.90
Con. Ind.	5/31/71	160	50,005	51,220,004	877	33,300	24,600	.05	2.04	1.02
Stop-N-Go	7/ 1/71	140	48,188	23,757,906	493	(45,058)	(23,058)	(.97)	(.94)	(.48)
Totals		7,151	2,523,119	$1,249,660,202	$495	$36,446,505	$18,218,495	1.45%	$14.45	$ 7.22

DOLLARS PER DAY SURVEY—FIFTH ANNUAL REPORT 1976

CONVENIENCE STORE INDUSTRY RANKED BY PROFIT PER DAY

COMPANY	YEAR ENDED	STORES	STORE DAYS	CONVENIENCE STORE SALES	AVG. SALES PER DAY PER STORE	PRETAX PROFIT	AFTER TAX PROFIT	AFTER TAX PROFIT AS % OF SALES	PROFIT PER DAY PRETAX	PROFIT PER STORE AFTER TAX
Li'l Champ	5/3/75	94	32,270	$ 17,447,409	$541	$ 1,178,177	$ 621,543	3.56%	$36.50	$19.26
Shop & Go	3/31/75	240	74,860	49,967,000	667	2,718,806	1,437,009	2.88	36.31	19.19
Sunshine Jr.	12/31/74	215	71,923	36,485,504	507	2,214,055	1,173,446	3.21	30.78	16.31
Hop-In	6/30/75	36	11,502	8,778,135	763	347,617	206,726	2.36	30.22	17.97
UtoteM	2/28/75	922	307,410	153,883,813	501	7,865,006	4,247,100	2.75	25.58	13.82
Southland	12/31/74	5,171	1,820,075	1,289,000,000	708	46,326,044	23,000,246	1.78	25.45	12.64
Circle K	4/30/75	1,024	359,746	228,325,795	634	9,051,035	4,718,035	2.06	25.15	13.11
Con. Ind.	5/25/75	218	71,344	68,276,208	957	1,353,000	677,853	.99	18.96	9.50
Little General	12/28/74	550	196,014	93,073,758	474	2,921,742	1,460,871	1.57	14.90	7.45
Munford	1/ 2/75	1,348	472,108	199,984,440	423	5,671,129	3,151,633	1.58	12.01	6.68
Stop-N-Go	6/26/75	168	56,784	49,612,731	874	486,174	244,174	.49	8.56	4.30
Natl. Con.	7/30/75	801	292,365	196,226,000	671	1,717,000	1,259,000	.64	5.87	4.30
Dillon	6/28/75	188	67,340	50,557,217	751	(724,916)	(395,659)		(10.76)	(5.87)
Totals		10,975	3,833,741	$2,441,618,010	$636	$81,124,869	$41,801,977	1.71%	$21.16	$10.90

TENTH ANNUAL DOLLARS PER DAY SURVEY—1981

THE SMALL FOOD STORE BUSINESS RANKED BY DOLLARS OF PROFIT PER STORE PER DAY

$DPD RANKING	CCOMPANY	YEAR ENDED	# OF STORES	STORE DAYS	SMALL FOOD STORE SALES	AVERAGE SALES PER STORE PER DAY	SALES INCREASE PER STORE PER DAY	PRETAX PROFIT	INVENTORY VALUATION METHOD	AFTER TAX PROFIT	AFTER TAX PROFIT AS A % OF SALES	PROFIT PER STORE PER DAY PRETAXA	PROFIT PER STORE PER DAY AFTER TAX
1.	Circle K	4/30/80	1,200	431,514	$ 381,203,000	$ 883	$+ 84	$ 31,703,000	FIFO	$ 16,948,000	4.45%	$73.47	$39.28
2.	Shop & Go	4/03/80	381	140,609	108,651,170	771	+ 84	8,535,351	LIFO	4,476,110	4.12	60.70	31.83
3.	National Convenience Stores	6/30/80	817	296,192	306,929,000	1,036	+117	13,295,000	FIFO	8,050,000	2.62	44.88	27.18
4.	Lil' Champ	5/03/80	138	49,710	30,446,909	612	+ 68	2,195,618	LIFO-Gas FIFO-Stores	1,172,958	3.85	44.17	23.60
5.	Dillon	6/28/80	324	114,478	178,117,909	1,566*	+219	5,000,801	LIFO	3,133,502	1.76*	43.68	27.37
6.	CONNA	5/25/80	336	118,664	182,559,000	1,538	+107	4,751,246	FIFO	2,517,246	1.39	40.04	21.21
7.	Southland	12/31/79	6,805	2,446,127	2,658,708,000	1,087	+137	93,991,938	LIFO	68,815,350	2.59	38.42	28.13
8.	UtoteM	2/29/80	927	339,282	280,296,000	826	+ 97	11,099,332	FIFO	5,721,287	2.04	32.71	16.86
9.	Sunshine Jr.	12/31/79	336	118,980	59,729,229	502	+ 32	3,691,867	FIFO	2,006,898	1.96	31.03	16.86
10.	Little General	12/29/79	464	168,896	141,487,000	838	+155	4,342,056	FIFO	2,171,028	1.54	25.71	12.85
11.	Hop-In	6/30/80	140	49,776	37,260,652	749	+ 35	1,193,129	LIFO-Gas FIFO-Stores	728,129	1.95	23.97	14.63
12.	Mini Mart	8/31/79	115	41,975	28,690,752	684	+119	787,684	FIFO	470,684	1.64	18.77	11.21
13.	Munford	1/03/80	1,184	439,264	257,586,000	586	+ 57	977,000	FIFO	586,590	.23	2.22	1.34
			13,167	4,755,467	$4,651,664,621	$ 978	+119	$181,564,022		$116,797,782	2.51%	$38.18	$24.56

THE THIRTEENTH ANNUAL DOLLARS PER DAY SURVEY

THE SMALL FOOD STORE BUSINESS RANKED BY DOLLARS OF PROFIT PER STORE PER DAY

DOLLARS PER DAY PROFIT RANKING	COMPANY	YEAR ENDED	NUMBER OF STORES	STORE DAYS	SMALL FOOD STORE SALES	AVERAGE SALES PER STORE PER DAY	SALES INCREASE PER STORE PER DAY	PERCENT OF SALES INCREASE IN $DPD SALES	PRETAX PROFIT	INVENTORY VALUATION METHOD	AFTER TAX PROFIT	AFTER TAX PROFIT AS A PERCENT OF SALES	PROFIT PER STORE PER DAY PRETAX	PROFIT PER STORE PER DAY AFTER TAX
1	Shop & Go	3-31-83	415	149,240	$133,174,000	$ 892	$ -21	-2%	$ 1,175,069	LIFO	$ 6,420,742	4.82%	$78.74	$43.02
2	National Convenience Stores	6-30-83	1,012	352,910	428,600,000	1,214	-84	-6%	22,951,000	FIFO	14,226,000	3.32%	65.03	40.31
3	Southland	12-31-82	7,165	2,585,396	3,960,000,000	1,532	+138	+10%	153,431,400	LIFO	87,825,945	2.22%	59.34	33.97
4	Circle K	4-30-83	1,221	443,835	460,500,000	1,038	+35	+3%	24,158,000	LIFO	13,286,900	2.88%	54.43	29.94
5	Lil' Champ	4-30-83	170	60,424	50,005,000	828	+92	+13%	3,123,000	LIFO	1,779,000	3.56%	51.68	29.44
6	Mini Mart	8-31-82	110	40,150	28,313,593	705	-22	-3%	1,301,500	LIFO	694,200	2.45%	32.41	17.29
7	Little General	12-15-83	431	156,884	173,691,000	1,107	+85	+8%	4,050,000	FIFO	2,025,500	1.16%	25.81	12.90
8	Casey's General Store	4-30-83	377	130,651*	44,356,273*	789	+53	+7%	2,961,528	LIFO	1,763,128	—*	22.67	13.49
9	Sunshine Jr.	12-30-82	358	129,584	73,801,966	570	+8	+1%	2,350,785	LIFO	1,415,640	1.92%	18.14	10.92
10	Munford	12-30-82	959	354,172	293,602,000	829	+91	+12%	5,385,000	FIFO	3,677,955	1.25%	15.20	10.38
11	Dairy Mart	1-31-83	143	51,646	52,102,000	1,009	+75	+8%	582,000	LIFO	439,000	.84%	11.27	8.50
12	CONNA	5-29-83	435	158,158	245,897,000	1,554	+19	+1%	(273,000)	FIFO	88,000	(.03%)	(1.72)	.56
TOTALS & Averages			12,796	4,613,050	$5,944,042,832	$1,310	$ +88	+7%	$231,771,904		$133,641,510	2.25%	$50.24	$28.97

Sales shown on this schedule are for food stores only. All gasoline sales have been excluded.
Gasoline sales for the year were $2,720,772,002.
Total sales for both food and gasoline were $8,664,814,834.
*Casey's store sales for company operated stores only.

14TH ANNUAL SURVEY
THE SMALL FOOD STORE BUSINESS RANKED BY DOLLARS OF PROFIT PER STORE PER DAY

FIGURES FOR YEARS ENDED		SHOP & GO 3/29/84	NATIONAL CONVENIENCE STORES 6/30/84	CIRCLE K 4/30/84	LIL' CHAMP 4/28/84	7-ELEVEN 12/31/83	LITTLE GENERAL 12/31/83	DAIRY MART 1/31/84	CASEY'S GENERAL STORE 4/30/84	SUNSHINE JR. 12/29/83	MUNFORD 12/29/83	CONNA 3/27/84	TOTALS
Average Sales per Store per Day	$	1,046	1,367	1,139	956	1,656	1,089	1,194	806	558	845	1,610	$1,390
Profit per Store per Day Pretax	$	107.68	75.75	71.18	62.15	55.58	48.63	31.61	30.56	20.43	19.50	(.60)	$54.21
Profit per Store per Day After Tax	$	58.16	48.16	38.16	34.12	39.46	24.32	17.55	16.03	11.36	13.14	.14	$35.17
Small Food Store Sales	$	160,841,000	523,700,000	646,700,000	61,427,000	4,370,000,000	175,019,000	69,472,546	54,143,383*	71,442,131	288,280,040	246,175,000	$6,667,200,100
After Tax Profit	$	8,943,908	18,450,000	21,662,000	2,192,000	104,162,600	3,908,715	1,021,709	2,347,000	1,453,540	4,484,459	22,000	$168,647,931
Number of Stores		430	1,081	2,185	183	7,299	436	176	427	345	916	405	13,883
Percent of Sales Increase in $DPD Sales		+17%	+13%	+10%	+15%	+8%	-2%	+18%	+2%	-2%	+2%	+4%	+6%
After Tax Profit as a Percent of Sales		5.56%	3.52%	3.34%	3.56%	2.38%	2.23%	1.47%	---*	2.03%	1.56%	(.01%)	2.52%
Sales Increase per Store per Day	$	+154	+153	+101	+128	+124	-18	+185	+17	-12	+16	+56	$+80
Store Days		153,790	383,019	567,618	64,246	2,639,613	160,726	58,201	146,400*	127,946	341,250	152,880	4,795,689
Pretax Profit	$	16,559,600	29,015,000	40,404,000	3,993,000	146,708,060	7,817,430	1,839,709	4,474,000	2,614,282	6,653,500	(92,000)	$259,986,581
Inventory Valuation Method		LIFO	FIFO	LIFO	LIFO	LIFO	FIFO	LIFO	LIFO	LIFO	FIFO	FIFO	
Closing Stock Price 10/26/84		20	17⅛	13⅜	20	30⅜	18⅜	12	13⅞	13¼	23⅛	7½	
Return on Equity		25.9%	22.8%	27.0%	17.9%	15.4%	12.8%	24.5%	21.2%	10.4%	16.2%	.2%	
Earnings Per Share	$	1.33	1.17	1.80	1.26	3.26	1.40	1.13	.90	1.07	2.06	.02	
Ratio		15	17	14	16	8	16	11	15	14	12	--	

Sales shown on this schedule are for food stores only. All gasoline sales have been excluded.

Gasoline sales for the year were $3,260,143,957.

Total sales for both food and gasoline were $9,927,344,057.

*Casey's store sales are for company operated stores only.

GASOLINE SALES, CONVENIENCE STORES AND BIG OIL COMPANIES

In 1964, John Roscoe was the first to sell gasoline using a remote controlled, self service pump. Although convenience stores around the country adopted the console method, by 1976 convenience stores accounted for only 1% of the total U.S. gasoline market.

By 1984, C-type stores had a 14% share of a 101 billion gallon market. Self-service gasoline, declines in gasoline sales, and dilapidated major brand stations forced the major oil companies to change their marketing methods.

At first, most companies thought that "pumper" stations were the answer to their volume problems. Pumper stations had no service bays—instead there were many pumps surrounding a central sales location. Prices were usually low.

Many companies still refer to certain locations as "pumpers", but a typical "pumper" fails to produce enough gasoline margin dollars to pay expenses when "pumpers" compete with each other. Increases in gallonage continue to come from the decline of the traditional station.

Our review of gasoline sales begins with the nine chains in the Survey. Then, we include a survey of the twelve largest oil companies. They are most likely to affect the convenience store industry in the years ahead.

GASOLINE OPERATIONS IN SMALL FOOD STORES

These nine chains sold 3,281,690,023 gallons of gasoline in 1984. The total national market for highway gasoline was 117.6 billion gallons in 1984. These nine chains account for 2.79% of the gasoline sales in the United States in 1984 through their 7,592 outlets.

Our best estimate of the amount of gasoline sold through all C-type stores (includes traditional convenience stores, plus other food and gasoline combinations) for 1984 is 16,808,446,000 gallons or 14.3% of the highway gasoline sold in the United States. We estimate that there are about 58,000 convenience-type stores in the United States, and that 65% of them sell gasoline. On the average they sell 1,227 gallons of gasoline per day per store. C-type stores increased their percentage of the national market by 1.87% in 1984. Over 20% of the gasoline sold in the United States will be sold through this type of an outlet in 1985. In 1976, only 1% of the total gasoline sold in the United States was sold through convenience stores.

BEST ESTIMATE OF THE PERCENTAGE OF TOTAL GASOLINE SOLD IN THE UNITED STATES BY C-TYPE STORES—1984

YEAR	# OF C-STORES	% OF C-STORES WITH GASOLINE	# OF GAS UNITS	GALLONS PUMPED PER UNIT DAILY	GALLONS PUMPED PER UNIT YEARLY	TOTAL GALLONS PUMPED	AMOUNT OF HIGHWAY GAS CONSUMED—BILLIONS OF GALLONS	% OF NATIONAL MARKET SUPPLIED BY C-STORES
1982	50,000	59.28%	29,641	1,101	401,865	11,909,352,000	98.5	12.09%
1983	53,000	62.93%	33,352	1,201	438,365	14,620,349,000	99.4	14.71%
1984	58,000	68.07%	37,531	1,227	447,855	16,808,446,000	101.4	16.58%

Southland's numbers heavily weigh the Dollars Per Day Survey.

Southland was a late entry into the gasoline business (they had only 75 units in 1970; just 2% of their stores had gasoline at that time), and today has a far lower percentage of gasoline units than the other chains in the Survey. (42% of Southland's store units sold gasoline in 1984, versus 68% of the stores operated by the rest of the Survey chains).

To compute a better estimate of the total percent of the national gasoline market supplied by C-type stores, we have adjusted the Survey figures as follows;

Estimate of total of C-type stores	58,000
Less Southland's 12.9% of total C-type stores	-7,473
C-type stores other than Southland's	50,527
Multiplied by the 68% having gas units	× 68%
C-type stores other than Southland's having gas units	34,358
Plus Southland's gasoline units (8.5% of industry total)	+ 3,173
Total C-type stores with gasoline units	37,531
Percentage of the total 58,000 C-type store units with gasoline	64.7%

Many of these units were developed from gasoline stations and by people with gasoline backgrounds. Units springing from these backgrounds typically develop higher gasoline gallonages per unit than those developed by the traditional convenience stores in the Dollars Per Day Survey. Our estimate of the percentage of the gasoline sold through C-type stores should be considered a base estimate. It is likely that the number of units, the amount of gasoline sold, and the percentage of the national market supplied by C-type stores is higher than the figures shown in this estimate.

In addition, while the number of traditional gasoline units declines each day, the number of C-type gasoline units increases each day. If traditional convenience store operators improve their daily gallonages of those of the gasoline background operators, there will be dramatic changes in the amount and percentage of the national market supplied by C-type gasoline units.

C-TYPE STORE GASOLINE SALES

Using the average of the nine chains in the Dollars Per Day Survey as the base

YEAR	# OF C-STORES	% OF STORES WITH GAS PUMPS	# OF GAS UNITS	GALLONS PUMPED PER UNIT	AMOUNT OF TOTAL GALLONS PUMPED	HIGHWAY GAS CONSUMED BILLIONS OF GALLONS	PERCENT OF NAT'L. MARKET SUPPLIED BY C-STORES	INCREASE	PERCENT OF INCREASE OVER PREVIOUS YEAR
1980	39,000	44.45%	17,160	359,890	6,175,712,000	101.2	6.10%		
1981	39,000	46.76%	18,330	379,600	6,958,068,000	99.6	6.99%	+0.89%	14.2%
1982	50,000	49.11%	24,555	401,865	9,865,663,000	98.5	10.01%	+3.02%	43.2%
1983	53,000	53.14%	28,164	438,365	12,346,111,000	99.4	12.42%	+2.41%	24.1%
1984	58,000	54.36%	31,528	447,855	14,119,972,000	101.4	13.92%	+1.50%	10.9%

CONVENIENCE STORES WITH GASOLINE UNITS

DOLLARS PER DAY PROFIT RANKING	COMPANY	NUMBER OF STORES	NUMBER OF GASOLINE UNITS	PERCENT OF STORES WITH GASOLINE	GASOLINE UNITS ADDED DURING YEAR	STORES ADDED DURING YEAR
1	Shop & Go	446	329	74%	22	16
2	Circle K	2,669	1,719	64%	256*	484
3	National Convenience Stores	1,130	824	73%	49	49
4	Southland	7,473	3,173	42%	166	174
5	Casey's	482	482	100%	55	55
6	Sunshine Jr.	336	319	95%	-2	-9
7	Munford	835	440	53%	-29	-81
8	Dairy Mart	200	35	18%	7	24
9	CONNA	393	271	69%	+3	-12
	Total	13,964	7,592	54.36%	+527*	+700

*Circle K purchased the Little General Stores and their 212 gasoline units during the year. Without these units, the gasoline unit growth would only be 315 units during the year.

RECAP OF IMPORTANT GASOLINE STATISTICS FOR THE CHAINS IN THE SURVEY

	1980	1981	1982	1983	1984
Number of Gasoline Units	5,406	5,799	6,029	7,378	7,592
Gallons Sold	1,879,110,571	2,112,975,731	2,328,127,593	2,926,108,199	3,281,690,023
Percent of Total U.S. Highway Gallons Used	1.86%	2.12%	2.36%	2.94%	3.24%
Average Gallonage Gasoline Unit per Day	986	1,040	1,101	1,201	1,227
Gasoline as a Percent of Total Sales	30.8%	32.10%	31.07%	31.40%	32.59%
Average Retail Price in Cents per Gallon	114.1¢	123.1¢	115.0¢	111.4¢	109.2¢

TOTAL GASOLINE SALES

DOLLARS PER DAY PROFIT RANKING	COMPANY	DOLLAR SALES
1	Shop & Go	$ 142,480,000
2	Circle K	592,121,720
3	National Convenience Stores	414,343,504
4	Southland	1,594,400,000
5	Casey's	222,225,920
6	Sunshine Jr.	80,321,907
7	Munford	377,019,000
8	Dairy Mart	13,792,735
9	CONNA	145,600,000
	Total Dollars of Gasoline Sold	$3,582,304,786

STORES WITH GASOLINE UNITS

SURVEY YEAR	NUMBER OF STORES	NUMBER OF STORES WITH GAS UNITS	GAS UNITS ADDED DURING YEAR	PERCENT OF STORES WITH GAS
1974-Fourth Survey	9,258	1,964		21.21%
1975-Fifth Survey	10,143	2,147	194	21.16%
1976-Sixth Survey	11,356	2,786	557	24.53%
1977-Seventh Survey	11,953	3,792	959	31.72%
1978-Eighth Survey	12,597	4,584	792	36.38%
1979-Ninth Survey	12,920	5,153	569	39.88%
1980-Tenth Survey	13,167	5,630	447	42.76%
1981-Eleventh Survey	12,445	5,533	442	44.45%
1982-Twelfth Survey	12,400	5,799	393	46.76%
1983-Thirteenth Survey	12,276	6,029	480	49.11%
1984-Fourteenth Survey	13,883	7,378	990	53.14%
1985-Fifteenth Survey	13,964	7,592	527	54.36%

SCHEDULE OF IMPORTANT GASOLINE INFORMATION

DOLLARS PER DAY PROFIT RANKING	COMPANY	NUMBER OF GASOLINE UNITS	NUMBER OF GALLONS SOLD THIS YEAR	GASOLINE OPERATING DAYS	AVERAGE GALLONS SOLD PER DAY PER GASOLINE UNIT	GASOLINE MARGIN PER DAY PER GASOLINE UNIT	GASOLINE MARGIN PER GALLON	PERCENT OF SALES CONTRIBUTED BY GASOLINE	PERCENT OF MARGIN CONTRIBUTED BY GASOLINE
1	Shop & Go	329	130,000,000	115,752	1,123	N/A	N/A	43.4%	N/A
2	Circle K	1,719	546,200,000	580,587	940	N/A	N/A	35.2%	N/A
3	National Convenience Stores	824	385,100,000	291,793	1,319	$105.58	8.00 cents	42.4%	12.6%
4	Southland	3,173	1,454,000,000	1,130,940	1,286	90.37	7.02 cents	24.8%	N/A
5	Casey's	482	202,023,570	165,865	1,218	112.66	9.25 cents	61.3%	32.2%
6	Sunshine Jr.	319	73,286,411*	116,116	631	N/A	N/A	49.9%	N/A
7	Munford	440	343,995,430	164,350	2,093	N/A	N/A	N/A	N/A
8	Dairy Mart	35	12,584,612	11,529	1,091	69.98	6.41 cents	14.9%	N/A
9	CONNA	271	134,500,000	98,098	1,371	N/A	N/A	35.7%	N/A
	Total	7,592	3,281,690,023	2,675,030	1,227	N/A	N/A	N/A	N/A

*Gasoline gallons sold was determined by dividing dollars of gasoline sold as reported in the annual report by Southland's actual retail price of $109.6.

CIRCLE K GASOLINE

	YEAR ENDED 04/30/79	YEAR ENDED 04/30/80	YEAR ENDED 04/30/81	YEAR ENDED 04/30/82	YEAR ENDED 04/30/83	YEAR ENDED 04/30/84	YEAR ENDED 04/30/85
Total Gasoline Sales	$108,400,000	$151,900,000	$227,100,000	$283,400,000	$287,300,000	$382,200,000	$592,121,720
Total Gallons Sold	155,900,000	154,200,000	192,500,000	230,700,000	255,200,000	346,700,000	546,200,000
Number of Gas Units	677	726	753	780	798	1,463	1,719
Gas Operating Days	240,700	256,749	269,904	279,759	287,976	378,731	580,587
Average Price at Retail per Gallon Sold	69.5 cents	98.5 cents	117.9 cents	122.8 cents	112.6 cents	110.2 cents	108.4 cents
Average Gallons Sold per Unit per Day	648	600	713	824	886	915	940
Average Gallons Sold per Units per Month	19,710	18,300	21,687	25,063	26,580	27,450	28,200
Average Margin per Gallon of Gasoline Sold					6.3 cents	6.8 cents	N/A
Total Gasoline Gross Margin					$16,077,600	$23,575,600	N/A
Gasoline Margin as a % of Total Company Margin					9.26%	9.50%	N/A

NATIONAL CONVENIENCE STORES GASOLINE

	YEAR ENDED 06/30/79	YEAR ENDED 06/30/80	YEAR ENDED 06/30/81	YEAR ENDED 06/30/82	YEAR ENDED 06/30/83	YEAR ENDED 06/30/84	YEAR ENDED 06/30/85
Total Gasoline Sales	$72,600,000	$127,500,000	$178,300,000	$255,470,000*	$255,088,000	$344,841,800	$414,343,504
Total Gallons Sold	114,500,000	155,500,000	182,200,000	216,500,000	231,600,000	310,000,000	385,100,000
Number of Gas Units	418	446	478	585	695	775	824
Gas Operating Days	135,917	157,666	168,168	193,944	233,545	269,010	291,793
Average Gallons Sold per Unit per Day	842	986	1,083	1,116	991	1,152	1,319
Average Gallons Sold Per Unit per Month	25,610	29,990	32,941	33,945	29,730	34,560	39,570
Margin per Gallon Sold	5.8 cents	8.7 cents	7.2 cents	7.3 cents	6.2 cents	6.7 cents	8.0 cents
Total Gas Margin	$8,244,000	$13,528,500	$13,118,400	$15,804,500	$14,359,200	$20,770,000	$30,808,000
Gas Margin per Unit Per Day	$60.65	$85.80	$78.00	$81.47	$61.48	$77.18	$105.58
Gasoline Gross Profit Dollars per Day divided by Total NCS Store Operating Days					$40.68	$54.22	$76.35
Gasoline Margin as a percent of Total Company Margin					7.95%	9.39%	12.62%

44.474 gallons of gasoline were sold on a commission-only basis. We have increased the NCS gasoline sales as shown in the report at the rate of 109.6 cents per gallon, or $48,743,504 to arrive at total gasoline dollar sales.

1984 7-ELEVEN GASOLINE DATA

	YEAR ENDED 12/31/78	YEAR ENDED 12/31/79	YEAR ENDED 12/31/80	YEAR ENDED 12/31/81	YEAR ENDED 12/31/82	YEAR ENDED 12/31/83	YEAR ENDED 12/31/84
Total Gasoline Sales	$354,500,000	$569,300,000	$912,900,000	$1,195,400,000	$1,341,500,000	$1,516,600,000	$1,594,400,000
Total Gallons Sold	616,200,000	675,500,000	792,900,000	956,000,000	1,156,000,000	1,361,200,000	1,454,400,000
Number of Gas Units	1,857	2,107	2,246	2,517	2,827	3,007	3,173
Average Price at Retail per Gallon Sold	57.5 cents	84.3 cents	115.1 cents	125.0 cents	116.0 cents	111.4 cents	109.6 cents
Gas Operating Days	625,833	723,305	796,599	869,112	975,125	1,064,615	1,130,940
Average Gallons sold per Unit per Day	984	933	995	1,100	1,185	1,279	1,286
Average Gallons Sold per Unit per Month	29,930	28,378	30,347	33,458	35,550	38,370	38,580
Gross Profit per Gallon					6.2 cents	5.9 cents	7.0 cents
Gross Profit from Gasoline					$72,100,000	$80,500,000	$102,200,000
Gross Profit Dollars per Day per Gasoline Unit					$73.93	$75.61	$90.37
Gasoline Gross Profit Dollars per Day divided by total 7-Eleven Store operating days					$27.88	$30.49	$37.80

7-ELEVEN GASOLINE MARGIN

Assuming 1,454,400,000 gallons sold per year

MARGIN PER GALLON	TOTAL GAS MARGIN	MARGIN PER UNIT AT 1,286 GALLONS PER DAY
10¢	$145,440,000	$128.60
9	130,896,000	115.74
8	116,352,000	102.88
7	101,808,000	90.02
6	87,264,000	77.16
5	72,720,000	64.30
4	58,176,000	51.44
3	43,632,000	38.58
2	29,088,000	25.72
1	14,544,000	12.86

The annual difference of 1 cent a gallon affects 7-Eleven gas margin by $14,544,000.

CASEY'S GASOLINE

The 10K gives the following information on Casey's gasoline for company stores open at least one full year.

	1983	1984	1985
Number of Gallons Sold	68,564,947	80,534,449	97,411,093
Average Retail Price per Gallon	$1.18	$1.17	$1.10
Total Retail Sales	$81,099,067	$94,582,596	$107,198,869
Average Number of Gallons Sold per Company Store	444,197	447,889	444,494
Average Gross Profit Margin per Gallon	7.37¢	7.98¢	9.25¢
Average Gallons Sold per Day per Store	1,217	1,223	1,218
Total Casey's Gasoline Days—All Stores	130,651	146,400	165,865
Total Casey's Gallonage if all stores sold the same amount of gasoline as the Company Stores shown above	159,002,260	179,047,200	202,023,570
Total Casey's Retail Gasoline Sales computed on the basis of the above figures	$187,622,660	$209,485,220	$222,225,920

WHAT IS THE VOLUME POTENTIAL FOR C-TYPE UNITS?

It depends how many there are. Here's how the numbers look, assuming that the national market stays the same size.

What Average Daily Store Sales Could Be

If Convenience stores accounted for this percentage of the $279 billion national food market,

	Share of Market		
# of stores	6.79% (present state)	10.00%	15.00%
58000 (present state)	$894.86	$1,317.90	$1,976.85
75000	$692.02	$1,019.18	$1,528.77
100000	$519.02	$764.38	$1,146.58
200000	$259.51	$382.19	$573.29

What C-Store Share of Gasoline Market Could Be:

If Convenience stores had this average daily gallonage, their share of the 101.4 billion gallon national gasoline market,

	Gallons per day		
# of gas units	1227 (present state)	1500	2000
37531 (present state)	16.58%	20.26%	27.02%
50000	22.08%	27.00%	36.00%
75000	33.13%	40.50%	53.99%
100000	44.17%	53.99%	71.99%

BEWARE: OIL STATISTICS

There are no reliable figures on the oil business. We've looked at a lot of them and we've talked to people who compute, tabulate, massage, guess, and borrow numbers. No set of numbers appears completely reliable or really agrees with numbers published by other sources. The business is so big and complicated that no one keeps figures the same way. We offer the following rule: Don't believe any statistic unless you make it up yourself.

The figures on the following pages should be sufficient to show the direction of the tide in the gasoline business. Some of the statistics come from the government. We've compiled others from the annual reports of major oil companies. Most oil company figures are fairly comparable since the companies use the same coterie of accounting firms.

UNITED STATES GASOLINE PRODUCT SALES AND SHARE OF MARKET

RANKED AS REPORTED IN THE ANNUAL REPORT

COMPANY	THOUSANDS OF BARRELS PER DAY	GALLONS SOLD PER DAY (THOUSANDS)	GALLONS SOLD PER YEAR (MILLIONS)	% MARKET SHARE IN 101 BILLION GALLON MARKET
1 Texaco	565	23,730,000	8,661,450	8.58
2 Exxon	514	21,588,000	7,879,620	7.80
3 Amoco	481	20,202,000	7,373,730	7.30
4 Shell	477	20,034,000	7,312,410	7.24
5 ARCO	401	16,842,000	6,147,330	6.09
6 Mobil	386	16,212,000	5,917,380	5.86
7 Chevron	386	16,212,000	5,917,380	5.86
8 Marathon	266	11,172,000	4,077,780	4.03
9 Sohio	257	10,794,000	3,939,810	3.90
10 Sun	250	10,500,000	3,832,500	3.79
11 Phillips	218	9,156,000	3,341,940	3.31
12 Union	199	8,358,000	3,050,670	3.02
Total for Schedule	4,400	184,800,000	67,452,000	66.78%

RANKING OF THE NUMBER OF SERVICE STATIONS OPERATED BY THE TWENTY LARGEST REFINING COMPANIES

COMPANY	# OF STATIONS	PERCENT OF TOTAL U.S. REFINING CAPACITY
1. Texaco	19,558	7.66%
2. Exxon	18,139	7.66%
3. Amoco	15,700	6.29%
4. Mobil	13,862	4.78%
5. Shell	11,000	6.41%
6. Chevron	10,516	9.48%
7. Phillips	10,500	1.92%
8. Union	10,400	3.12%
9. Sun	7,348	2.29%
10. Southland	6,964	2.04%
Top Ten Companies	123,987	51.65%
11. Dupont—Conoco	4,800	2.74%
12. ARCO	3,900	4.90%
13. Marathon—U.S.S.	3,588	3.75%
14. Sohio	3,000	2.91%
15. Ashland	1,910	2.26%
16. Coastal	509	1.09%
17. Gulf	N/A	5.25%
18. Koch	N/A	1.67%
19. Union Pacific—Champlin	N/A	1.38%
20. Tosco	None	1.10%
Second Ten Companies	17,707	27.05%
Total Twenty Refiners	141,694	78.76%

Exxon, Ashland, Conoco from NPN Survey. All other figures taken from this year's annual reports of the Companies.

AVERAGE GALLONAGE PER STATION

Assuming all gasoline sales reported by company were sold through the stations listed in annual report, and no outside gasoline was purchased for the stations reported.

COMPANY	1984 # OF STATIONS	TOTAL GALLONS SOLD PER YEAR (THOUSANDS)	AVERAGE GALLONS SOLD PER STATION PER YEAR	AVERAGE GALLONS SOLD PER STATION PER MONTH	AVERAGE GALLONS SOLD PER STATION PER DAY	INCREASE OR DECREASE FROM LAST YEAR
1. Texaco	19,558	8,661,450	442,859	36,905	1,213	+231
2. Exxon	18,139	7,879,620	434,402	36,200	1,190	+56
3. Amoco	15,700	7,373,730	469,664	39,138	1,286	+179
4. Shell	11,000	7,312,410	664,764	55,397	1,821	+207
5. ARCO	3,900	6,147,330	1,576,238	131,353	4,318	+796
6. Mobil	13,862	5,917,380	426,619	35,551	1,170	+118
7. Chevron	10,517	5,917,380	562,649	46,887	1,542	+132
8. Marathon	3,588	4,077,780	1,136,505	94,708	3,113	+62
9. Sohio	3,000	3,939,810	1,313,270	109,439	3,598	-1,742
10. Sun	7,348	3,832,500	521,571	43,464	1,428	-221
11. Phillips	10,500	3,341,940	318,280	26,523	872	+130
12. Union	10,400	3,050,670	293,333	24,444	804	-47
Total for Top 12 Companies	127,512	67,452,000	528,985	44,082	1,449	+189

AVERAGE PROFITS PER DAY PER STATION

Assuming all pretax profits reported by the Company were from the stations operated by the Company.

COMPANY	1984 # OF STATIONS	STATION DAYS	TOTAL PRETAX PROFITS (THOUSANDS)	AVERAGE PRETAX PROFITS PER DAY PER STATION DAY WOULD BE
1. Texaco	19,558	7,138,670	$ 1,570,000	$ 219
2. Exxon	18,139	6,620,735	10,998,000	1,660
3. Amoco	15,700	5,730,500	3,933,000	686
4. Shell	11,000	4,015,000	3,018,000	751
5. ARCO	3,900	1,423,500	2,008,000	1,410
6. Mobil	13,862	5,059,630	4,168,000	823
7. Chevron	10,517	3,838,705	2,554,000	665
8. Marathon	3,588	1,309,620	1,059,000	808
9. Sohio	3,000	1,095,000	2,706,000	2,471
10. Sun	7,348	2,682,020	977,000	364
11. Phillips	10,500	3,832,500	2,065,000	538
12. Union	10,400	3,796,000	1,238,700	326
Total of Top 12 Companies	127,512	46,541,880	$36,294,700	$ 780

COMPARISON OF STATIONS OPERATED BY THE 12 MAJOR OIL COMPANIES

AS REPORTED IN THEIR ANNUAL REPORTS AND 10K'S

COMPANY	1980 # OF STATIONS	1981 # OF STATIONS	1982 # OF STATIONS	1983 # OF STATIONS	1984 # OF STATIONS	INCREASE OR DECREASE	TOTAL INCREASE OR DECREASE SINCE 1980
1. Texaco	24,000	21,000	18,000	18,000	19,558	+1,558	-4,442
2. Exxon	22,886	20,585	20,600	18,707	18,139	-568	-4,747
3. Amoco	21,300	20,100	17,800	17,800	15,700	-2,100	-5,600
4. Shell	15,400	13,700	13,300	12,100	11,000	-1,100	-4,400
5. ARCO	8,200	7,122	5,260	4,400	3,900	-500	-4,300
6. Mobil	17,425	16,564	16,216	15,403	13,862	-1,541	-3,563
7. Chevron	12,139	11,586	11,295	11,021	10,517	-504	-1,622
8. Marathon	2,789	2,903	2,998	3,372	3,588	+216	+799
9. SOHIO	2,300	2,300	2,200	2,100	3,000	+900	+700
10. Sun	9,231	8,736	7,665	6,700	7,348	+648	-1,883
11. Phillips	12,805	13,900	13,900	12,000	10,500	-1,500	-2,305
12. Union	12,300	12,500	12,700	11,200	10,400	-800	-1,900
Totals	160,775	150,996	141,934	132,803	127,512	-5,291	-33,263

Source: Annual reports of these companies.
These companies combined operate 20% less stations in 1984 than they did in 1980.

MOTOR FUEL HIGHWAY CONSUMPTION

Comprises all fuels (gasoline) diesel or other fuels used for propulsion of vehicles under state motor fuel laws.

Excludes federal purchases for military use.

YEAR	TOTAL CONSUMPTION IN BILLIONS OF GALLONS	AVERAGE ANNUAL PERCENT CHANGE
1960	57.9	4.0[1]
1965	71.1	4.2
1970	92.3	5.4
1972	105.1	6.7
1973	110.5	6.2
1974	106.3	-3.8
1975	109.0	2.5
1976	115.7	6.2
1977	119.6	3.4
1978	125.1	4.6
1979	122.1	-2.4
1980	116.0	-4.9
1981	115.2	-.6
1982	112.3	-2.3
1983	113.9	1.4
1984	117.6	3.2

[1]Change from 1955

TOTAL GASOLINE CONSUMPTION IN BILLIONS OF GALLONS

YEAR	HIGHWAY	NON-HIGHWAY	TOTAL GASOLINE USE	AVERAGE ANNUAL PERCENT CHANGE
1978	112.2	3.6	115.8	—
1979	108.1	3.7	111.8	-3.5%
1980	101.2	3.6	104.8	-6.3%
1981	99.6	3.5	103.1	-1.6%
1982	98.5	3.3	101.8	-1.3%
1983	99.4	3.2	102.6	+.8%
1984	101.4	3.9	105.4	+2.7%

Source: U.S. Federal Highway Administration, Highway Statistics Annual.

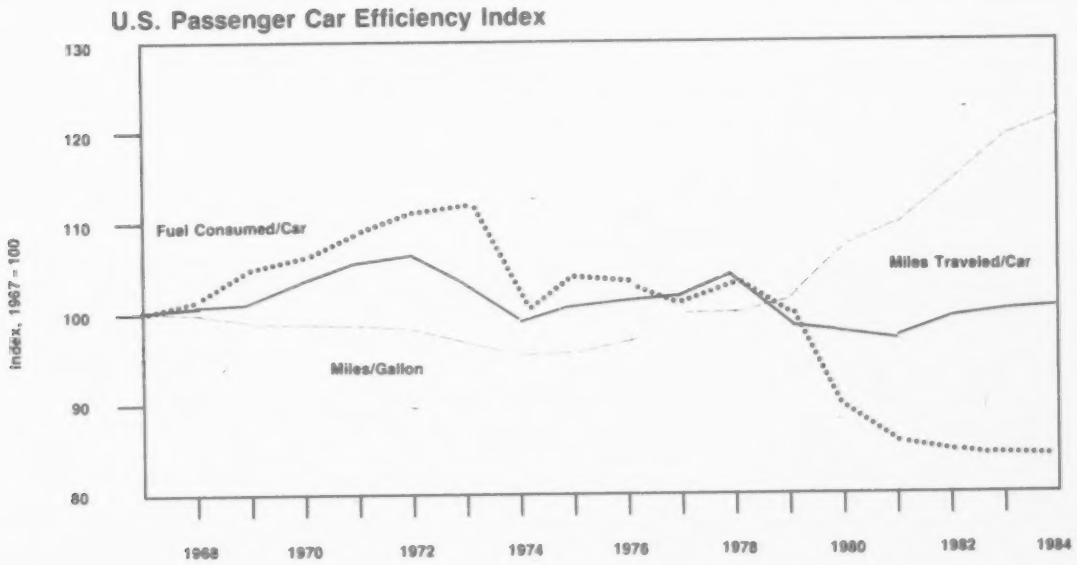
AMERICAN FLEET STATISTICS

	AVERAGE FUEL CONSUMED PER CAR		AVERAGE MILES TRAVELED PER CAR		AVERAGE MILES TRAVELED PER GALLON OF FUEL CONSUMED	
	GALLONS	INDEX	MILES	INDEX	MILES	INDEX
1967	684	100.0	9,531	100.0	13.93	100.0
1968	698	102.0	9,627	101.0	13.79	99.0
1969	718	105.0	9,782	102.6	13.63	97.8
1970	735	107.5	9,978	104.7	13.57	97.4
1971	746	109.1	10,121	106.2	13.57	97.4
1972	755	110.4	10,184	106.9	13.49	96.8
1973	763	111.5	9,992	104.8	13.10	94.0
1974	704	102.9	9,448	99.1	13.43	96.4
1975	712	104.1	9,634	101.1	13.53	97.1
1976	711	103.9	9,763	102.4	13.72	98.5
1977	706	103.2	9,839	103.2	13.94	100.0
1978	715	104.5	10,046	105.4	14.06	100.9
1979	664	97.1	9,485	99.5	14.29	102.6
1980	603	88.2	9,135	95.8	15.15	108.7
1981	579	84.6	9,002	94.4	15.55	111.6
1982	587	85.8	9,533	100.0	16.25	116.6
1983	578	84.5	9,654	101.2	16.70	119.8
1984	579	84.6	9,809	102.9	16.94	121.6

Energy Summary

Energy Indicator - U.S. Passenger Car Efficiency

	Average Fuel Consumed per Car		Average Miles Traveled per Car		Average Miles Traveled per Gallon of Fuel Consumed	
1967	684	100.0	9,531	100.0	13.93	100.0
1968	698	102.0	9,627	101.0	13.78	99.0
1969	716	105.0	9,782	102.6	13.63	97.8
1970	735	107.5	9,978	104.7	13.57	97.4
1971	748	109.1	10,121	106.2	13.57	97.4
1972	755	110.4	10,184	106.9	13.49	96.8
1973	763	111.5	9,992	104.8	13.10	94.0
1974	704	102.9	9,448	99.1	13.43	96.4
1975	712	104.1	9,634	101.1	13.53	97.1
1976	711	103.9	9,763	102.4	13.72	98.5
1977	706	103.2	9,839	103.2	13.94	100.1
1978	715	104.5	10,046	105.4	14.06	100.9
1979	664	97.1	9,485	99.5	14.29	102.6
1980	603	88.2	9,135	95.8	15.15	108.8
1981	579	84.6	9,002	94.4	15.54	111.6
1982	567	85.8	9,533	100.0	16.25	116.7
1983	578	84.5	9,654	101.2	16.70	119.9
1984	579	84.6	98.09	102.9	16.94	121.6



†Preliminary data.
Note: •Geographic coverage is the 50 States and the District of Colombia.
Sources: See the last page of this section.

SUMMARY OF AVERAGE FUEL ECONOMY PERFORMANCE NEW PASSENGER AUTOMOBILES (MILES PER GALLON)

	MODEL YEAR 1978	MODEL YEAR 1979	MODEL YEAR 1980	MODEL YEAR 1981	MODEL YEAR 1982	MODEL YEAR 1983	MODEL YEAR 1984	MODEL YEAR 1985
Passenger Cars:								
New U.S.-made Averages	18.7	19.3	21.9	23.5	24.5	24.2	25.3	26.1
New Imported Car Averages	27.3	26.1	28.6	30.6	30.7	31.8	31.2	30.8
New Cars Combined Averages	19.9	20.3	23.5	25.2	26.1	26.0	26.5	27.3
Light Trucks:								
New U.S.-made Averages	N/A	17.7	16.8	18.3	19.2	19.6	19.3	19.7
New Imported Averages	N/A	20.8	24.4	27.4	27.0	27.5	26.8	26.4
New Combined Averages	N/A	18.2	18.5	20.1	20.6	20.8	20.5	20.6
Combined New Car and Light Truck Averages	N/A	20.1	22.5	24.1	24.8	24.6	24.8	25.2

Source: U.S. Department of Transportation.

TOTAL MOTOR VEHICLES, MOTOR VEHICLE REGISTRATIONS, AND NEW CAR SALES

YEAR	TOTAL MOTOR VEHICLES	TOTAL U.S. NEW AUTOMOBILE SALES INCLUDING IMPORTS	TOTAL AUTOMOBILES PRIVATE, PUBLIC, AND COMMERCIAL	NET ANNUAL INCREASE IN TOTAL AUTOMOBILE REGISTRATION	AVERAGE ANNUAL PERCENT INCREASE IN REGISTRATION
1950	49,200,000		40,400,000		7.4%
1960	73,900,000		61,700,000		3.3%
1970	108,400,000		89,200,000		3.2%
1975	132,900,000		106,700,000		2.3%
1976	138,500,000		110,400,000	+3,700,000	4.2%
1977	142,400,000	11,183,412	112,300,000	+1,900,000	2.8%
1978	148,800,000	11,314,079	116,600,000	+4,300,000	4.5%
1979	154,118,099	10,673,435	120,247,990	+3,647,990	3.6%
1980	155,889,692	8,979,194	121,723,650	+1,475,660	1.1%
1981	158,456,511	8,536,758	123,461,507	+1,757,857	1.6%
1982	159,449,166	7,980,800	123,746,128	+284,621	0.2%
1983	163,861,169	8,924,186	126,138,236	+2,392,108	1.9%
1984	166,497,670	10,393,230	127,866,900	+1,728,664	1.4%

Source: Registrations—U.S Highway Administration Statistics.
Figures from 1978 and before from Federal Highway Administration, Highway Statistics as reported in the Statistical Abstract of the United States, 1980.

12 MAJOR REFINERS REPRESENTING 67% OF THE NATIONAL GASOLINE MARKET UNITED STATES GASOLINE PRODUCT SALES

THOUSANDS OF BARRELS DAILY

COMPANY	1980	1981	1982	1983	1984	INCREASE OR DECREASE	PERCENT INCREASE OR DECREASE
1 Texaco	435	404	388	421	565	+144	+34%
2 Exxon	558	489	492	505	514	+9	+7%
3 Amoco	504	474	477	469	481	+12	+3%
4 Shell	527	470	459	465	477	+12	+3%
5 ARCO	329	292	324	369	401	+32	+9%
6 Mobil	428	363	378	386	386	—	—
7 Chevron	449	387	354	370	386	+16	+4%
8 Marathon—U.S.S.	—	—	241	245	266	+21	+9%
9 Sohio	261	246	244	267	257	−10	−4%
10 Sun	289	256	275	263	250	−13	−5%
11 Phillips	214	209	216	212	218	+6	+3%
12 Union	253	218	213	227	199	−28	−12%
Total 12 Major Refiners	4247	3808	4061	4199	4400	+201	+5%

These 12 refiners produced 67,452,000 gallons of gasoline in 1984 or 67% of all the gasoline used in the United States in 1984.

REFINER'S CRUDE OPERABLE CRUDE DISTILLATION CAPACITY AS OF JANUARY 1, 1985

REFINER	BARRELS PER CALENDAR DAY	CHANGE FROM JANUARY 1, 1984	PERCENT OF TOTAL U.S. REFINING CAPACITY
1. Chevron	1,484,700	None	9.48%
2. Exxon	1,200,000	None	7.66%
3. Texaco	1,199,000	+188,000	7.66%
4. Shell	1,005,000	-200	6.41%
5. Amoco	986,000	+49,000	6.29%
6. Gulf	823,200	None	5.25%
7. ARCO	768,000	+18,000	4.90%
8. Mobil	750,000	+22,000	4.78%
9. Marathon—U.S.S.	588,000	None	3.75%
10. Unocal	490,000	None	3.12%
Top Ten Refiners	9,293,900	+276,800	59.35%
11. Sohio	456,000	None	2.91%
12. Dupont—Conoco	429,774	+9,000	2.74%
13. Sun	358,000	None	2.29%
14. Ashland	353,343	-109,600	2.26%
15. Southland	320,000	None	2.04%
16. Phillips	300,000	+5,000	1.92%
17. Koch	262,000	+20,000	1.67%
18. Union Pacific—Champlin	217,000	+13,000	1.38%
19. Tosco	173,000	-85,800	1.10%
20. Coastal	171,300	None	1.09%
Second Ten Refiners	3,040,417	-148,400	19.42%
Total Top Twenty Refiners	12,334,317	+128,400	78.76%

The twelve companies in this report have operable crude distillation capacity of 9,584,700 barrels per calendar day or 61.2% of the total United States refining capacity. Total United States operable crude refining capacity was 15,658,769 barrels per day on January 1, 1985.

PERCENT OF REFINING CAPACITY UTILIZED IN THE UNITED STATES BY THE 12 COMPANIES THAT PRODUCE 67% OF THE GASOLINE REFINED

COMPANY	1980	1981	1982	1983	1984	DIFFERENCE 1984 VS. 1983
1 Texaco	73.4%	69.5%	64.2%	72.1%	89.3%	+17.2%
2 Exxon	79.0%	72.6%	69.6%	79.8%	85.1%	+5.3%
3 Amoco	71.3%	69.5%	74.4%	81.1%	81.9%	+.8%
4 Shell	77.1%	71.4%	73.9%	81.8%	83.4%	+1.6%
5 ARCO	88.0%	96.2%	97.0%	96.0%	96.3%	+.3%
6 Mobil	80.6%	74.3%	74.8%	72.9%	82.4%	+9.5%
7 Chevron	80.5%	73.4%	58.9%	55.0%	50.4%	-4.6%
8 Marathon	—	—	—	69.0%	75.3%	+6.3%
9 Sohio	88.6%	80.0%	79.7%	86.0%	88.9%	+2.9%
10 Sun	79.0%	76.0%	79.0%	84.0%	87.0%	+3.0%
11 Phillips	61.6%	75.0%	81.0%	88.0%	98.0%	+10.0%
12 Union	79.9%	76.0%	74.0%	77.6%	72.0%	-5.6%

Source: Annual reports of these companies.
Editor's Note: Refining capacities change from year to year.

U.S. Petroleum Developments: 1984

Petroleum consumption in the United States increased in 1984 for the first time since 1978. Rapid economic growth during the earlier part of 1984, stable crude oil prices, and a much colder first quarter than in 1983 contributed to the turnaround in petroleum demand. Net imports of crude oil and petroleum products were the primary source of supply in meeting the difference between domestic production and increased product demand (see Figure A1). **Stocks of crude oil[1] and petroleum products** were generally lower than during 1983. Seasonal declines in **distillate fuel oil stocks** were seen during the first quarter of this year; however, stock building later in the year raised inventories well above their year-end 1983 levels. **Crude oil prices** remained steady in nominal terms for most of the year (implying a falling real price over the period). As the United Kingdom, Norway, and Nigeria lowered their crude oil prices, the world price of crude oil fell during the final quarter. **Motor gasoline prices** were slightly lower than in 1983, while **heating oil prices** were slightly higher during the first half of the year. **Refinery utilization** continued to increase in 1984 as a result of higher gross inputs to crude distillation facilities and lower capacity levels of these facilities: **Rotary rig activity, well completions,** and **seismic geophysical activity** were above their prior year levels.

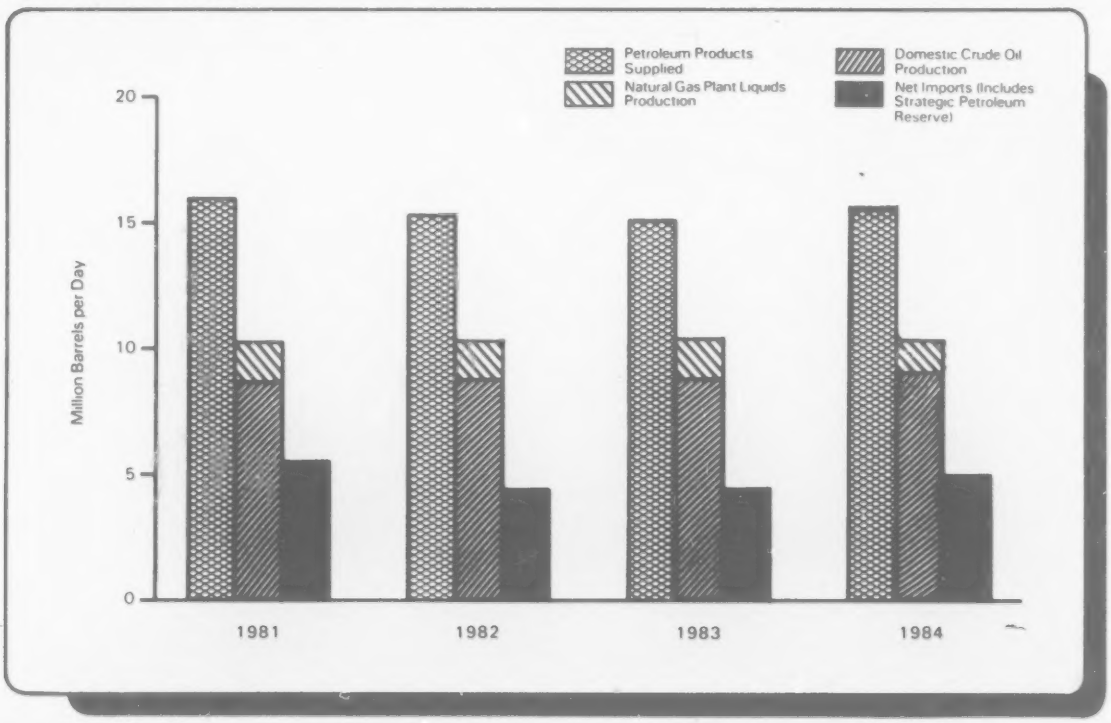
NOTE: Unless otherwise referenced, data in this article were taken from the Summary Statistics section of this report, *Petroleum Supply Annual*, DOE/EIA-0340 (84)/1; *Petroleum Supply Annual*, 1981, 1982, and 1983, DOE/EIA-0340, Volumes 1 and 2. All price data are stated in nominal terms (unadjusted for inflation). Where final data were not available, estimates were based on preliminary data.

Consumption

During 1984, petroleum consumption in the United States (measured as "petroleum products supplied") increased 3 percent over 1983, reversing the 5-year downward trend in consumption. The average consumption of 15.7 million barrels per day was the result of the rate at which the economy grew during 1984, a colder winter than in 1983, and stable petroleum prices. Consumption of all major petroleum products except residual fuel oil was greater than 1983.

[1]Excluding Strategic Petroleum Reserve (SPR).

Figure 1. Petroleum Supply



Sources: Energy Information Administration, *Petroleum Supply Annual*, 1981, 1982, 1983, and 1984 DOE/EIA-0340.

Motor gasoline consumption averaged 6.7 million barrels per day during 1984, 1 percent higher than the average recorded for 1983 (see Table A1). This increase in demand was in response to generally lower prices for motor gasoline during 1984 than in 1983. High primary stock levels and record imports of finished motor gasoline were the major factors contributing to this price drop. However, a portion of this demand was offset by an improved fleet efficiency caused by the high volume of new, more fuel-efficient cars entering the fleet during 1984.

Table A1. Products Supplied Summary (Million Barrels per Day)

Products Supplied	1981	1982	1983	1984
Motor Gasoline	6.6	6.5	6.6	6.7
Distillate Fuel Oil	2.8	2.7	2.7	2.8
Residual Fuel Oil	2.1	1.7	1.4	1.4
Other Products	4.6	4.4	4.5	4.8
Total	16.1	15.3	15.2	15.7

Sources: Energy Information Administration, *Petroleum Supply Annual*, 1981, 1982, 1983, and 1984; DOE/EIA-0340.

Distillate fuel oil consumption in 1984 averaged 2.8 million barrels per day, up 6 percent from 1983 and the highest level since 1980. Strong growth in industrial production and a surge in demand for heating oil during the unusually cold winter were factors in the rise in distillate fuel oil demand. To accommodate this rise, refineries stepped up their production of distillate fuel oil, stock withdrawals were increased, and higher imports of distillate fuel oil were needed.

Consumption of residual fuel oil fell 4 percent from the 1983 level, averaging 1.4 million barrels per day during 1984. Although consumption went up moderately during the first quarter of 1984, compared with the same quarter in 1983, overall demand for residual fuel oil has been declining steadily for the past several years. An unusually cold January on the East Coast, where nearly half of all residual fuel oil is used, coupled with an increase in industrial and electric utility use, caused higher consumption during this period. Higher imports were the major source of supply in meeting this short-term increase in demand. However, as temperatures began to moderate by the second quarter, demand fell behind year-earlier levels in each of the last three quarters of 1984.

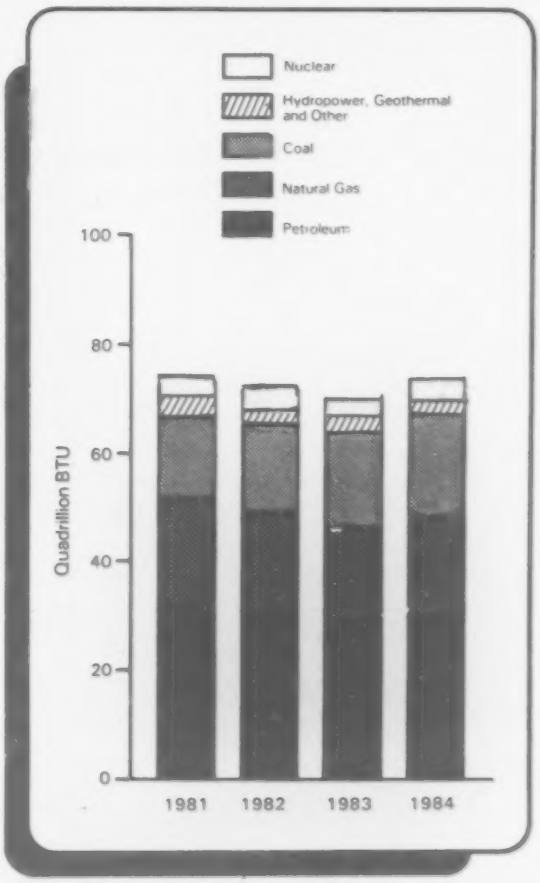
Consumption of other petroleum products,[1] including liquefied petroleum gases, during 1984 averaged 4.8 million barrels per day, up 7 percent from 1983. This increase was also the result of strong economic growth, particularly in the petrochemical industry.

Despite the increase in consumption, petroleum's share of the overall energy market declined in 1984, continuing the downward trend which began in 1979. This decline is related to continued conservation efforts and fuel switching begun during the late 1970's. However, petroleum remained the dominant energy source in the United States during 1984 (see Figure A2).

Refinery Operations

Total operable crude oil distillation capacity of petroleum refineries fell about 480,000 barrels per day during 1984, well below the previous year's drop of more than 700,000 barrels per day (see Table A2). Although the loss of capacity was significantly less, the number of refineries closed during 1984 was 26 compared to 18 in 1983. New construction and modifications at existing facilities partially offset the effects of these closings. Crude oil inputs to refineries averaged 12.0 million barrels per day during the year, 3 percent above the average for the previous year. Consequently, as inputs rose and operable capacity fell, the refinery utilization rate increased to an average of 76.2 percent for 1984 (see Table A2).

Figure A2. Consumption of Energy by Type



Sources: Energy Information Administration, *Monthly Energy Review*, December 1984, DOE/EIA-0035 (84/12).

[1]Includes all finished petroleum products except finished motor gasoline, distillate fuel oil, and residual fuel oil.

Table A2. Refinery Operations (Million Barrels per Day)

Operations	1981	1982	1983	1984	1985
Crude Oil Input	12.5	11.8	11.7	12.0	NA
Gross Input	12.8	12.2	11.9	12.2	NA
Operable Capacity	18.6'	17.9'	16.9'	16.1'	15.7
Refinery Utilization (Yearly average)	68.5	69.8	71.7	76.2	NA

NA = Not applicable
'Operable capacity as of January 1.
Sources: Energy Information Administration, *Petroleum Supply Annual*, 1981, 1982, 1983 and 1984, DOE/EIA-0340.

Petroleum Stocks

Total petroleum stocks, excluding the Strategic Petroleum Reserve (SPR), stood at 1,106 million barrels at the end of 1984, about 3 percent above the level of stocks held in inventory at the end of 1983 (see Table A3). Most of this increase occurred in inventories of refined products, which rose 4 percent to 760 million barrels. Stocks of crude oil (excluding SPR) increased slightly, from 344 million barrels at the end of 1983, to 345 million barrels at the end of 1984. Crude oil stocks held in the SPR climbed to 451 million barrels, up nearly 19 percent over the level reported for year-end 1983.

Stocks of distillate fuel oil during 1984 were generally below their comparable 1983 levels, particularly during the first quarter, when large stock withdrawals were needed to meet higher heating oil demand caused by the unusually cold weather. By year-end 1984, stocks were replenished to 161 million barrels, 15 percent above year-end 1983 volumes. Residual fuel oil inventories remained close to prior year levels, but increased 9 percent to 53 million barrels by year's end. Motor gasoline inventories, on the other hand, increased substantially during the spring months, but fell back to normal levels before the end of the summer driving season. The increase in distillate fuel oil production early in 1984 was largely responsible for the relatively high motor gasoline stock levels seen at the beginning of the summer, since motor gasoline is a co-product in the production of distillate fuel oil. By the end of 1984, motor gasoline stocks stood at 243 million barrels, well above the 1983 year-end volume of 222 million barrels.

Table A3. Ending Stocks of Petroleum (Million Barrels)

Commodity	1983	1984	Percent Change
Crude Oil			
SPR	379	451	18.8
Other	344	345	0.4
Total	723	796	10.1
Products			
Motor Gasoline	222	243	9.4
Distillate Fuel Oil	140	161	14.8
Residual Fuel Oil	49	53	9.3
Other	319	303	-5.2
Total	731	760	4.1
Total Crude Oil and Products	1,454	1,556	7.1

Note: Total may not equal sum of components due to independent rounding.
Sources: Energy Information Administration, *Petroleum Supply Annual*, 1983 and 1984, DOE/EIA-0340.

Imports

Net imports—gross imports including imports for the Strategic Petroleum Reserve minus exports—of crude oil and petroleum products into the United States increased to 4.7 million barrels per day, 9 percent above the 1983 average (see table A4). This represents the second consecutive yearly increase in net imports, a reversal of the downward trend between 1977 and 1982. Although net imports from members of the Organization of Petroleum Exporting Countries (OPEC) were up over 1983, non-OPEC countries remained the major net suppliers of crude oil and petroleum products to the United States during 1984.

Table A4. Net Imports of Petroleum (Million Barrels per Day)

Commodity	1983	1984	Percent Change
Crude Oil			
SPR	0.2	0.2	-15.8
Other	2.9	3.0	4.0
Total	3.2	3.2	2.5
Products			
Residual Fuel Oil	0.5	0.5	-4.3
Motor Gasoline	0.2	0.3	23.6
Distillate Fuel Oil	0.1	0.2	100.9
Other	0.3	0.5	63.3
Total	1.1	1.5	28.4
Total Crude Oil and Products	4.3	4.7	9.4

Note: Total may not equal sum of components due to independent rounding.
Sources: Energy Information Administration, *Petroleum Supply Annual*, 1983 and 1984, DOE/EIA-0340.

Net crude oil imports, excluding SPR imports, were up for the first time since 1979, averaging 3.0 million barrels per day, while crude oil imports for the SPR fell during 1984, to an average of 197,000 barrels per day, down 16 percent from the 234,000 barrels per day averaged during 1983. Net imports of petroleum products averaged 1.5 million barrels per day in 1984, up 28 percent from 1983. Net imports of distillate fuel oil more than doubled, to 0.2 million barrels per day, and accounted for much of this increase: Net imports of residual fuel oil fell 4 percent, to 0.5 million barrels per day, while motor gasoline net imports rose 24 percent, to 0.3 million barrels per day.

Exports of petroleum products fell during 1984 to 541 thousand barrels per day, from 575 thousand barrels per day during 1983. The largest decline among petroleum product exports was in liquefied petroleum gases, down 34 percent from 1983.

Production

Domestic crude oil production during 1984 averaged 8.9 million barrels per day—the highest yearly average since 1974, 191,000 barrels per day above the comparable 1983 average.

U.S. drilling activity during 1984 continued to show improvement over 1983. An average of 2,428 rigs were in operation during 1984, compared to an average of 2,232 in 1983.[3] Geophysical activity was also up during 1984, reaching a high of 529 crews engaged in seismic exploration in July. Geophysical activity in 1984 increased 4% above 1983. From a July peak of 529, crews engaged in seismic exploration fell each month to 466 in December 1984, a 5 percent decrease from December 1983.[4] Well completions for this year were above those reported in 1983. In 1984 a total of 81,979 wells were drilled, averaging 4,248 feet per well, compared to the 1983 total of 76,329 drilled with an average depth of 4,267 feet per well in 1983.[5]

Petroleum Prices

Petroleum prices (in nominal terms) remained stable during most of 1984, despite the uncertainties caused by the threat of a supply disruption from the Persian Gulf and a surge in demand by some major industrialized countries, such as the United States and Japan. At $28 per barrel at year end, world crude oil prices were only slightly down from their level in December 1983. Inventory drawdowns, increased oil production, and the continuing strength of the dollar relative to other major currencies were the major factors contributing to the downward pressure on crude oil prices.

The average composite refiner acquisition cost of crude oil for 1984 was $28.63 per barrel compared with $28.99 per barrel in 1983 (see Table A5).

Average retail prices of motor gasoline were generally below 1983 levels throughout most of 1984. The average price of motor gasoline for 1984 was 119.8 cents per gallon, 2 percent below the 1983 average. Some seasonal variation in the price of gasoline is normal, with higher prices occurring during the summer driving season; however, 1984 saw prices drop nearly three cents per gallon during this peak period. High primary stock levels at the beginning of the summer, caused by higher refinery production of distillate fuel oil during the first quarter 1984, and increased imports of finished motor gasoline were the major forces behind this price drop.

Between December 1983 and February 1984, residential heating oil prices jumped nearly 10 percent, from $1.07 per gallon to $1.17 per gallon. This rise may be explained by the higher demand for distillate fuel oil in the first quarter of 1984, caused by the abnormally cold early winter weather. However, as inventories were replenished, prices fell each month through August, when the price of residential heating oil was below the comparable 1983 price of $1.05 per gallon.

Table A5. Annual U.S. Average Petroleum Prices

Petroleum Prices	1981	1982	1983	1984
(Dollars per Barrel)				
Refiner Acquisition Cost of Crude Oil				
Domestic	34.33	31.22	28.87	28.53
Imported	37.05	33.55	29.30	28.88
Composite	35.24	31.87	28.99	28.63
(Cents per Gallon)				
Motor Gasoline				
All types, Retail	135.3	128.1	122.5	119.8
No. 2 Heating Oil, Retail[1]	119.4	116.0	107.8	109.1

Sources: Energy Information Administration Form 14, "Refiners' Monthly Cost Report," Form EIA-9A, "No. 2 Heating Oil Supply/Price Monitoring Report," Form EIA-782A, "Monthly No. 2 Distillate Sales Report," and Form EIA-782B, "Monthly No. 2 Distillate Sales Report." Motor gasoline prices: Bureau of Labor Statistics.

[3]Hughes Tool Company, *Rotary Rigs Running—By State*, (Houston, Texas: 1983-1984).
[4]Society of Exploration Geophysicists, "Monthly Seismic Crew Count," December 1984.
[5]American Petroleum Institute, "Monthly Drilling Report," December 1984.

U.S. Refining Capacity: 1985

Introduction

This chapter presents the results of the Energy Information Administration's 1985 annual refinery survey (Form EIA-820, "**Annual Refinery Report**"). Statistics reflect capacities as of January 1, 1985, and operations during 1984. Projections are based on the expectations of survey respondents and may not be consistent with the forecasts of the Energy Information Administration.

Number of Operable Refineries

On January 1, 1985, there were 223 operable petroleum refineries in the United States[1] reporting a combined operable crude distillation capacity of 15.7 million barrels per calendar day, (16.5 million barrels per stream day[2]). Compared to January 1, 1984, crude distillation capacity fell 0.5 million barrels per calendar day and (0 6 million barrels per stream day).

Refiners continued to respond to slowdowns in product demand, shifts in product mix and changes in crude oil quality by reducing capacity through plant closings and down-sizing capacity. During 1984, 26 closings and 2 start-ups resulted in a net decrease of 24 plants with an associated loss in crude distillation capacity of 0.5 million barrels per calendar day. The majority of these closings occurred at refineries with crude distillation capacity of 30,000 barrels per calendar day or less. These closings accounted for a net reduction of 19 facilities. Refineries with crude distillation capacity greater than 30,000 barrels per calendar day showed a net reduction of 5 during 1984 (see Table B1).

Crude Distillation Capacity

Of the 15.7 million barrels per calendar day of operable crude distillation capacity, 1.3 million barrels per calendar day was idle on January 1, 1985. Slightly more than half of this capacity, 0.7 million barrels per calendar day, was at facilities partially in operation, while the remaining 0.6 million barrels per calendar day was at 24 completely idle refineries. Idle refineries are capable of being restarted within 30 days, or under active repairs that could be completed within 90 days. Although fewer plants were completely idle as of January 1, 1985, compared to the same date last year, their combined crude distillation capacity exceeded the previous year's level by 0.1 million barrels per calendar day.

Since January 1, 1981, crude distillation capacity has declined nearly 3.0 million barrels per calendar day (3.3 million barrels per stream day). Respondents to the Energy Information Administration's annual refinery survey project that crude distillation capacity will decrease by about 100,000 barrels per day between January 1, 1985 and January 1, 1986. Refinery utilization peaked at 78.2 percent in August 1984; the average rate for the year rose to 76.2 percent, from the previous year's average of 71.7 percent.

Downstream Capacity

Total downstream charge capacity on January 1, 1985 stood at 28.3 million barrels per stream day, a net decrease of 0.4 million barrels per stream day. New construction at existing refineries and the start-up of previously closed refineries was more than offset by the nearly 0.7 million barrels per stream day capacity closed during 1984. The most significant declines were in vacuum distillation and catalytic reforming, dropping 2 percent and 4 percent, respectively. However, during

[1]The 50 United States and District of Columbia excluding U.S. territories and possessions.
[2]See definitions for explanation of "calendar day" and "stream day".

Table B1. Number of Operable Refineries, by size, from January 1, 1981 to 1985

Crude Distillation Capacity (Barrels per Calendar Day)	Years				
	1985	1984	1983	1982	1981
Less than 10,000	56	63	67	82	91
10,001-30,000	43	55	59	80	93
30,001-50,000	38	41	40	44	42
50,001-100,000	39	41	44	43	44
100,001-175,000	25	26	26	30	27
Over 175,000	22	21	22	22	27
Total	**223**	**247**	**258**	**301**	**324**

Source: Form EIA-820.

the year downstream charge capacity increased 3 percent for catalytic cracking (recycled), and nearly 11 percent for catalytic hydrocracking. The relationship between downstream units and product output is shown in Figure 1.

Refiners project that total downstream charge capacity may drop to 28.2 million barrels per stream day by 1986. However, the downstream processing mix is not projected to change appreciably from January 1, 1985 levels. All major downstream refinery processes, except catalytic hydrotreating, are expected to fall below current year levels.

Refinery Receipts of Crude Oil

Refinery receipts of crude oil averaged 12.2 million barrels per day during 1984, up 0.5 million barrels per day from 1983. This increase represented a reversal of the downward trend that started in 1979. Receipts of domestic crude oil averaged 8.8 million barrels per day and foreign averaged 3.3 million barrels per day. Most of the increase in refinery receipts of crude oil was from domestic sources, rising from 8.6 million barrels per day during 1983 to 8.8 million barrels per day during 1984. Foreign crude receipts also rose during 1984, reaching 3.3 million barrels per day from 3.2 million barrels per day during 1983.

Storage Capacity

Shell and working storage capacity at refineries and blending plants on January 1, 1985 totaled 911 million barrels and 803 million barrels, respectively. Shell storage capacity was relatively unchanged from the previous year, but working storage capacity recorded a 2 percent gain from the January 1, 1984 level. Refineries previously closed, but retaining their storage capabilities, accounted for 50.3 million barrels of total working storage capacity and 54.6 million barrels of total shell storage capacity.

Fuels Consumed

Various energy forms such as crude oil, distillate and residual fuel oil, liquefied petroleum gases, natural gas, still gas, petroleum coke, coal, electricity, and purchased steam are consumed at refineries. In 1984, refineries used 20.3 million barrels of distillate and residual fuel oil, down from 21.5 million barrels in 1983. Petroleum coke, including both marketable and catalyst coke, consumed during 1984 was 67.8 million barrels, slightly above the 1983 level of 66.9 million barrels. Still gas consumption increased to 192 million barrels from 188 million barrels reported in 1983; natural gas use increased 0.4 million cubic feet from the year-earlier level.

COMPARISON OF AVERAGE RETURN ON EQUITY OF THE 12 OIL COMPANIES THAT PRODUCE 67% OF THE GASOLINE REFINED IN THE UNITED STATES

COMPANY	AVG. RETURN ON EQUITY IN 1980	AVG. RETURN ON EQUITY IN 1981	AVG. RETURN ON EQUITY IN 1982	AVG. RETURN ON EQUITY IN 1983	AVG. RETURN ON EQUITY IN 1984	DIFFERENCE 1984 VS. 1983	DIFFERENCE 1984 VS. 1980	% DECREASE RETURN ON EQUITY 1980 VS. 1983
1. Texaco	21.1%	17.6%	9.2%	8.6%	7.3%	-1.3%	-13.8%	-65%
2. Exxon	21.8%	17.8%	14.9%	17.2%	19.0%	+1.8%	-2.8%	-8%
3. Amoco	21.6%	19.2%	16.5%	15.7%	17.5%	+1.8%	-4.1%	-19%
4. Shell	22.0%	21.0%	17.4%	15.9%	15.6%	-.3%	-6.4%	-29%
5. ARCO	24.4%	20.8%	18.1%	14.9%	13.4%	-1.5%	-11.0%	-45%
6. Mobil	23.9%	17.6%	9.4%	10.8%	9.2%	-1.6%	-14.7%	-62%
7. Chevron	21.7%	20.0%	10.6%	11.6%	10.6%	+1.0%	-11.1%	-51%
8. Marathon	21.0%	16.6%	(5.6%)	(20.7%)	8.5%	+29.2%	-12.5%	-59%
9. Sohio	39.7%	31.0%	28.5%	19.7%	18.1%	-1.8%	-21.6%	-54%
10. Sun	16.8%	21.5%	10.5%	8.7%	10.2%	+1.5%	-6.6%	-39%
11. Phillips	23.8%	16.9%	11.4%	12.1%	12.7%	+.6%	-11.1%	-47%
12. Union	20.1%	20.8%	18.2%	12.6%	12.7%	+.1%	-7.4%	-37%

Source: Annual reports of these companies.

A SUMMARY OF INFORMATION ON THE COMPANIES IN:

WHAT DO THE 12 LARGEST OIL COMPANIES HAVE TO SAY
ABOUT GASOLINE MARKETING IN 1985

COMPANY	# OF STATIONS	# OF PAGES IN ANNUAL REPORT	PAGES DEVOTED TO GASOLINE MARKETING	PERCENTAGE OF COMPANY STOCK OWNED BY OFFICERS AND DIRECTORS	AVERAGE RETURN ON SHAREHOLDER'S EQUITY IN 1984
1. Texaco	19,558	45	1/3	Less than 1%	7.3%
2. Exxon	18,139	50	1/2	1/10th of 1%	19.0%
3. Amoco	15,700	53	1-3/4	Less than 1%	17.5%
4. Shell	11,000	59	3-1/2	N/A	15.6%
5. ARCO	3,900	56	2-1/2	Less than 1%	13.4%
6. Mobil	13,862	45	2	43/100th of 1%	9.2%
7. Chevron	10,517	67	3	1/5th of 1%	10.6%
8. Marathon	3,588	59	1/2	Less than 1%	8.5%
9. Sohio	3,000	70	1-1/2	Less than 1%	18.1%
10. Sun	7,348	63	1-1/2	3.5%	10.2%
11. Phillips	10,500	76	1-1/2	2/10th of 1%	12.7%
12. Union	10,400	49	1-1/4	Less than 1%	12.9%
Total	127,512	692	19-5/6*		

*+4-1/2 pages from 1984 or a 33% increase.

TEXACO, INC.
YEAR ENDED DECEMBER 31, 1984

	1980	1981	1982	1983	1984
Sales	$52,484,640,000	$59,297,000,000	$48,019,000,000	$41,147,000,000	$47,935,000,000
Earnings	2,642,542,000	2,310,000,000	1,281,000,000	1,233,000,000	306,000,000
Number of Employees	66,745	67,000	60,330	54,683	68,088
Return on Average Shareholder's Equity	21.1%	17.6%	9.2%	8.6%	7.3%
United States Motor Gasoline Sales as a Percentage of Texaco Worldwide Refined Product Sales (by barrels)	19.7%	18.9%	20.6%	23.0%	25.0%
Percentage of Company Stock Owned by Corporate Officers and Directors	24/100ths of 1%	27/100ths of 1%	27/100ths of 1%	Less than 1%	Less than 1%
Number of Pages in Annual Report	92	69	56	52	45
Number of Pages Devoted to Gasoline Marketing	1	1/3	2/3	1/3	1/3

Number of Texaco Gasoline Stations in the United States:

12-31-84	19,558†
12-31-83	18,690*
12-31-82	18,000
12-31-81	21,000
12-31-80	24,000
12-31-79	28,000
12-31-76	N/A
12-31-71	32,000

*National Petroleum News Number of Stations
†Texaco purchased Getty on March 1, 1984 and the figures are included from that date.

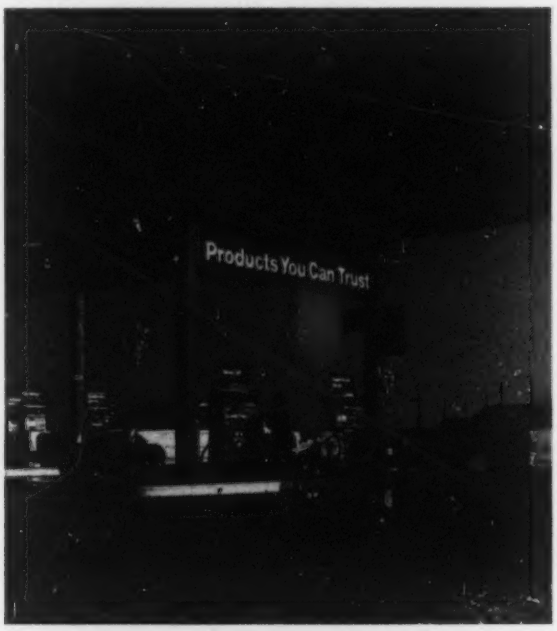
Marketing

Throughout major marketing areas—primarily in the Northeast, the Sun Belt, and the West Coast—Texaco emphasized the construction of new *System 2000* retail outlets, as well as the conversion of existing stations to conform to the Company's dynamic marketing image.

At year-end, there were more than 400 new, *System 2000,* high-volume outlets in operation. These retail facilities averaged more than 170,000 gallons a month in 1984.

Texaco moved into a leading position, nationally, in average throughput per investment station. In 1984, investment-type outlets averaged over 86,000 gallons a month.

Sales of *Texaco Super Unleaded* gasoline rose about 32%, helping Texaco increase its market share for this profitable product. In addition, the Company's market share of two high-revenue products—*Havoline Supreme* motor oils and *Texaco Anti-Freeze Coolant*—also increased during the year.



C

A: Production facility, designed to handle 20,000 barrels of oil and 120 million cubic feet of gas a day, goes on stream in Gulf of Mexico.
B: Seismic vessel launches sonar equipment to gather offshore exploration data.
C: High-volume *System 2000* retail outlets extend into key U.S. market areas.

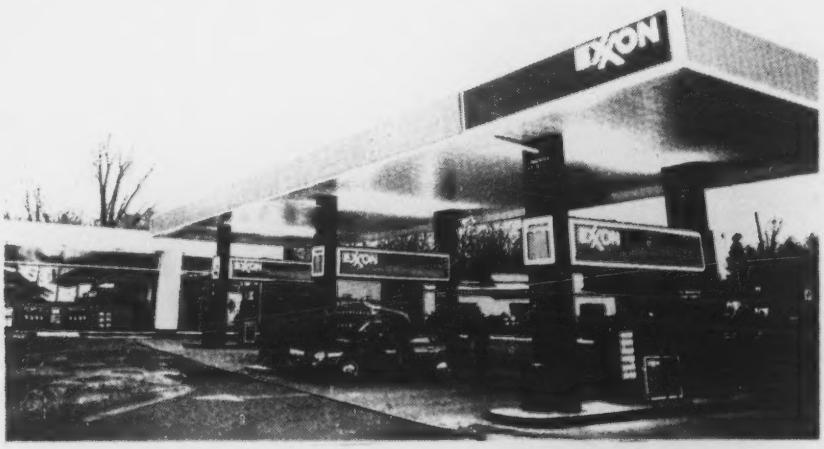
EXXON CORPORATION
YEAR ENDED DECEMBER 31, 1984

	1980	1981	1982	1983	1984
Sales	$110,190,644,000	$114,922,561,000	$103,558,545,000	$94,733,971,000	$97,288,000,000
Earnings	5,350,070,000	4,826,215,000	4,185,932,000	4,977,957,000	5,528,000,000
Number of Employees	177,000	180,000	173,000	156,000	150,000
Return on Average Shareholder's Equity	21.8%	17.8%	14.9%	17.2%	19.0%
United States Motor Gasoline Sales as a Percentage of Exxon Worldwide Refined Product Sales (by barrels)	11.0%	10.4%	11.1%	12.4%	N/A
Percentage of Company Stock Owned by Corporate Officers and Directors	1/10 of 1%	1/10 of 1%	1/10 of 1%	1/10 of 1%	1/10 of 1%
Number of Pages in Annual Report	52	52	44	48	50
Number of Pages Devoted to Gasoline Marketing	1/4	2/3	3/4	2/3	1/2

Number of Exxon Gasoline Stations in the United States:

12-31-84	18,139
12-31-83	18,707
12-31-82	20,600
12-31-81	20,585
12-31-80	22,886
12-31-79	N/A
12-31-76	N/A
12-31-71	N/A

Service station in Wayne, New Jersey (right), is one of 7,500 Exxon stations which now exemplify the new design the company began to install in its worldwide chain in 1981.



Service station chain upgraded.

The number of stations in the company's worldwide chain was reduced by 2,000, as Exxon continued to phase out relatively low-volume, less efficient outlets. Since 1979, Exxon has reduced its chain by about 25 percent, while the throughput of its average station has increased by nearly 30 percent.

Exxon continued to install the new design for station architecture and signs which it introduced in 1981. More than 7,500 stations now reflect the attractive new design.

STANDARD OIL OF INDIANA (AMOCO)
YEAR ENDED DECEMBER 31, 1984

	1980	1981	1982	1983	1984
Sales	$27,831,862,000	$31,729,171,000	$29,783,000,000	$29,494,000,000	$29,008,000,000
Earnings	1,915,314,000	1,921,800,000	1,826,000,000	1,868,000,000	2,183,000,000
Number of Employees	56,401	58,665	57,810	56,734	53,581
Return on Average Shareholder's Equity	21.6%	19.2%	16.5%	15.7%	17.5%
United States Motor Gasoline Sales as a Percentage of Amoco Worldwide Refined Product Sales (by barrels)	43.2%	46.8%	46.5%	46.3%	49.4%
Percentage of Company Stock Owned by Corporate Officers and Directors	59/100th of 1%	65/100th of 1%	N/A	N/A	Less than 1%
Number of Pages in Annual Report	56	53	52	52	53
Number of Pages Devoted to Gasoline Marketing	1-1/2	2	1	1	1-3/4

Number of Amoco Gasoline Stations in the United States:

12-31-84	15,700
12-31-83	17,800
12-31-82	17,800
12-31-81	20,100
12-31-80	21,300
12-31-79	21,500
12-31-76	24,800
12-31-71	N/A

This Kansas City station exemplifies our program to upgrade the image of our facilities and to emphasize self-serve pumpers, often combined with a car wash or convenience food store, to increase sales.

us meet the Environmental Protection Agency's program to speed the removal of lead from gasoline.

Continued emphasis on high-volume pumper stations in metropolitan markets

Marketing: We continued an ongoing program to upgrade operations, with primary emphasis on the development of gasoline pumper outlets, many with food shops or car washes. We also have been closing low-volume, uneconomical locations. This program continues to be concentrated in our strategic metropolitan markets, where our market share increased to 14.4 percent in 1984, compared with 13.3 percent in 1983. Amoco ranks first or second in gasoline sales in three-fourths of these markets. System-wide, we have retained our number one position, with an 11.7 percent share of our 33-state market.

In addition, we continued to implement our Image program, providing continuity and improving the appearance of retail outlets throughout our system. We also have expanded our Certicare program, which now offers guaranteed automotive services at more than 500 service stations in 17 metropolitan markets, a 25 percent increase over 1983.

Dual marketing programs were aimed at attracting credit-card as well as cash customers

During a period of static demand for gasoline, it is especially important to broaden

We are introducing pop-up pour spouts on our line of Amoco motor oils to increase the appeal to do-it-yourselfers, and have redesigned and strengthened the graphics of the packaging for the motor oil line.

our customer base. In response to consumer demand for low prices and convenient service, we continued to offer our Discount for Cash and credit-card programs, and provided self service at 85 percent of our locations at year-end. Also, recognizing a vital need to provide full service for handicapped drivers, more than 800 Amoco dealers are offering to pump gasoline for these valued customers at self-serve prices. Further expansion of this program is planned for 1985.

Our U.S. gasoline sales growth exceeded the industry's rate in our marketing area

We expanded our credit-card base by about 800,000 customers in 1984. This increase resulted from a single mailing to more than 7 million credit-worthy motorists and a mail and telephone campaign that increased the number of active Torch Club and MultiCard accounts. Service to Amoco Motor Club members was improved by providing 24-hour toll-free telephone numbers for emergency road and towing service.

Our continued emphasis on quality products is spearheaded by our market-leading sales of lead-free gasolines, particularly Amoco Premium Lead-Free. Amoco's total U.S. gasoline sales increased 3 percent in 1984, more than the increase in industrywide demand in our effective marketing area. Total U.S. refined product sales of 860,000 barrels per day were level with the prior year. Sales per marketing employee increased from 240 barrels a day in 1983 to 270 barrels in 1984.

fully utilized for transporting petroleum products and chemical feedstocks in the Gulf of Mexico and Atlantic Coast trade.

Outlook: The decline in worldwide oil consumption has ended and demand is now expected to be relatively stable, with modest increases for the next few years. Although the economic recovery is expected to continue, its impact on petroleum products demand will be partially offset by improved energy efficiencies and shifts to other forms of energy. Thus, with ample crude supplies and excess refining and marketing capacity, our industry's downstream earnings are expected to remain under heavy competitive pressure.

Adding to this pressure is the Environmental Protection Agency's upcoming phasedown of lead in gasoline. Replacing the octanes lost by removing lead will cause more intense use of present facilities and create a need for new refining investments.

Despite the continuation of a very competitive environment, we are confident that we will be able to be a profitable, superior competitor in 1985.

Refining, Marketing, and Transportation

Earnings of $123 million in 1984 for worldwide refining, marketing, and transportation operations (downstream) were $95 million higher than 1983 earnings of $28 million and also well above the $40 million earned in 1982. The earnings improvement reflected improved refining yields and lower crude costs together with the positive impact of nonoperating factors, which more than offset lower gasoline prices.

Refined product prices declined in 1984 and sales volumes were lower in total due to the divestment of Italian and Australian operations. Sales of U.S. refined products continued at 860,000 barrels per day as increased gasoline sales were offset by reduced sales of distillates and other refined products. Prices for gasoline were depressed throughout the year and are expected to remain under intense competitive pressures during 1985. Distillate prices, which strengthened at the beginning of the year in response to a colder-than-normal winter and low industry inventory levels, fell throughout the remainder of 1984 and resulted in a yearly average comparable to 1983. The table below shows the company's average U.S. selling prices (excluding consumer excise taxes) for refined products during the last five years.

cents per gallon	**1984**	1983	1982	1981	1980
Average U.S. selling price					
Gasoline	**87.0**	92.5	100.7	109.3	96.5
Distillates	**82.5**	82.4	94.3	102.8	84.0
Other products	**58.1**	57.4	55.5	60.5	50.0
Total refined products	**81.3**	83.6	91.3	99.4	84.9

SHELL OIL COMPANY
YEAR ENDED DECEMBER 31, 1984

	1980	1981	1982	1983	1984
Sales	$19,959,000,000	$21,739,000,000	$20,214,000,000	$19,883,000,000	$20,898,000,000
Earnings	1,543,000,000	1,701,000,000	1,605,000,000	1,633,000,000	1,772,000,000
Number of Employees	36,596	37,273	36,504	35,185	34,700
Return on Average Shareholder's Equity	22%	21%	17.4%	15.9%	15.6%
United States Motor Gasoline Sales as a Percentage of Shell Worldwide Refined Product Sales (by barrels)	57.2%	56.9%	57.0%	55.0%	52.8%
Percentage of Company Stock Owned by Corporate Officers and Directors	27/100th of 1%	34/100th of 1%	32/100th of 1%	30/100th of 1%	N/A
Number of Pages in Annual Report	60	67	60	52	59
Number of Pages Devoted to Gasoline Marketing	3	5	1-1/3	2-1/4	3-1/2

Number of Shell Gasoline Stations in the United States:

12-31-84	11,000
12-31-83	12,100
12-31-82	13,300
12-31-81	13,700
12-31-80	15,400
12-31-79	16,500
12-31-76	19,200
12-31-71	N/A

Oil Products

To be the most profitable refiner-marketer, generating surplus cash for use in other parts of our business.

Net income of $223 million in our Oil Products business in 1984 was the highest in the domestic industry. This segment generated significant after-tax cash income, $185 million more than its capital expenditures.

Considering the very difficult environment, Oil Products earnings were gratifying relative to competitors. However, profitability was not satisfactory because of depressed margins caused by the worldwide surpluses of crude oil and refinery capacity.

Our performance is supported by a continuing dedication to meeting customers' desires for quality products and dependable service. A good example is the success of the two new gasolines introduced in 1984, SU 2000® super unleaded and RU 2000® regular unleaded. They contain a patented additive package designed to prevent or reduce engine deposits, thereby reducing both engine knock and the tendency for engines to increase their octane requirements over time.

Another important element in our performance is our ability to identify and implement innovative cost reduction and efficiency measures. This is reflected in the rapid growth of our credit card automation program; in the continued modernization and consolidation of our service station network; in refinery modifications that increase yields of higher-value products such as gasoline and jet fuel from lower-cost crudes, and in our very successful refinery fuel conservation program.

Complete industry statistics for 1984 are not available yet, but during 1976-83 our return on investment in this business was well above the average of our major competitors. We expect this good performance relative to competition to continue even in these difficult times because of our ability to improve productivity, cut costs and maintain successful marketing programs.

Key Actions Taken

■ ***We introduced SU 2000® super unleaded gasoline and RU 2000® regular unleaded gasoline. Customer response has been favorable, helping Shell attain a 3-percent increase in gasoline sales—well above the average industry sales increase.***

■ ***Shell continued installing electronic terminals to process credit card transactions at service stations, which will provide better service and lower operating costs.***

Products

ing programs including superior customer service, and productivity improvements.

Introduction of SU 2000® super unleaded gasoline and RU 2000® regular unleaded gasoline was a major 1984 highlight reflective of our ongoing commitment to leadership in customer service and quality products.

These two new gasolines contain a patented additive package, PDP 5400, designed to reduce engine knock and control the tendency for modern engines to increase their "octane appetites" with age. In October, *Motor Trend* magazine chose SU 2000 as the official fuel for its car testing program.

Central to our customer service programs is the concept of attractive, well-sited stations, quality products at competitive prices, and credit card purchases at the same price as those for cash. Forty percent of our stations perform AUTO CARE® repairs guaranteed by the dealer.

Shell's gasoline sales averaged 87,000 gallons a month per station in 1984, up 11 percent from 1983, continuing a trend toward significant sales increases per station over the past five years.

Jet fuel sales rose for the third consecutive year, reflecting increased jet fuel production at our recently modernized California refineries as well as expanded marketing programs. The 1984 sales increase was 12 percent.

In other product categories, lubricating oil sales rose 6 percent while sales of all other products rose by 12 percent.

As part of our productivity efforts, we continued to increase the fuel efficiency and product yields of our refineries and streamline the logistics of products distribution. Since 1972, we have reduced fuel consumption at our refineries by 24 percent. In marketing, we continued to relinquish older, outmoded service stations in order to concentrate on modern, high-volume stations in those metropolitan areas where we have the greatest logistical and marketing strength.

During 1984, Oil Products capital expenditures totaled $344 million, mainly for yield improvements, energy conservation and marketing modernization. At our Deer Park, Texas facility, we completed the modification of the catalytic cracker—a key piece of equipment in making gasoline and other "light" products. A similar project is under way at Wood River, Illinois. When the Wood River modifications are completed in late 1985, we will have upgraded the catalytic crackers at all our major refineries.

Installation of electronic terminals in service stations is a key part of our program to improve marketing efficiency. By year-end, we had installed terminals in about 80 percent of our directly supplied stations, and we expect to have them in all directly supplied stations by spring 1985. The terminals are linked by a nationwide electronic communications network to Shell's Credit Card Center in Tulsa. This enables service station attendants to process credit card transactions rapidly and check instantly whether a card has been reported as lost or stolen. Major advantages include reduced bad debt, faster billing and collection, and reduced working capital requirements.

Chemical Products

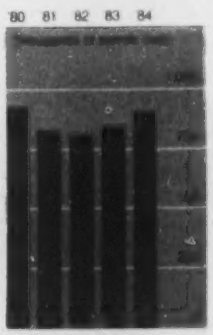
Our primary objectives in Chemical Products are to be one of the top companies in profit performance among our major competitors, to maximize cash generation from our commodity businesses, and to selectively extend those businesses where we have a sustainable competitive advantage.

In 1984, we devoted major attention to cost control, strengthening our marketing efforts and developing proprietary businesses.

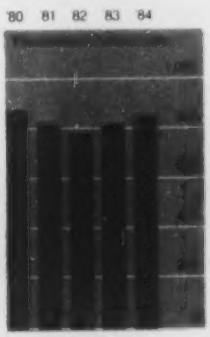
The major focus of our cost control programs continued to be energy conservation and operating efficiencies. Since 1972, energy consumption per pound of product produced has been reduced by more than 25 percent.

We are pursuing a number of new venture opportunities to increase the profitability of our chemical business. These activities are directed

Oil Product Sales



Crude Sources



SHELL OIL COMPANY

EXCERPT FROM THE ANNUAL REPORT OF SHELL OIL COMPANY, 12.31.84

ATLANTIC RICHFIELD COMPANY (ARCO)

YEAR ENDED DECEMBER 31, 1984

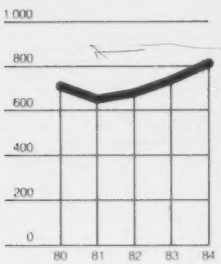
	1980	1981	1982	1983	1984
Sales	$24,156,000,000	$28,208,000,000	$26,991,000,000	$25,937,397,000	$24,654,000,000
Earnings	1,651,000,000	1,671,000,000	1,676,000,000	1,547,875,000	1,129,000,000
Number of Employees	53,400	54,200	51,600	49,700	39,400
Return on Average Shareholder's Equity	24.4%	20.8%	18.1%	14.9%	13.4%
United States Motor Gasoline Sales as a Percentage of ARCO Worldwide Refined Product Sales (by barrels)	41.8%	40.2%	42.3%	46.0%	45.5%
Percentage of Company Stock Owned by Corporate Officers and Directors	46/100ths of 1%	46/100ths of 1%	43/100ths of 1%	Less than 1%	Less than 1%
Number of Pages in Annual Report	60	61	60	59	56
Number of Pages Devoted to Gasoline Marketing	1/2	4	2	1-1/4	2-1/2

Number of ARCO Gasoline Stations in the United States:

12-31-84	3,900
12-31-83	4,400
12-31-82	5,260
12-31-81	7,122
12-31-80	8,200
12-31-79	8,300
12-31-76	N/A
12-31-71	N/A

Refining and Marketing

Domestic Petroleum Product Sales
Thousand barrels per day



ARCO Petroleum Products Company continued to operate profitably in 1984 in an intensely competitive marketplace for refined products. Pretax earnings were $279 million, down from the $474 million earned in 1983 because of depressed industry margins and a $125 million decline in the effect of inventory reductions on pretax profit.

Worldwide refiners and marketers experienced a difficult year in 1984. While a strong economy boosted U.S. oil demand moderately, surplus crude supplies and excess refining capacity undermined industry profitability. ARCO Petroleum Products Company was affected by these industrywide conditions, though not as severely as some because of record sales volumes and broad-based efficiency improvements of recent years.

In petroleum marketing, ARCO Petroleum Products Company continued to reap the benefits of innovative developments that have made it an industry leader. The emphasis on high-volume, efficient stations together with the am/pm® mini-market and MP&G® Tune-Up Center franchise programs continues to differentiate ARCO from the industry in an increasingly competitive marketplace. While U.S. gasoline demand increased only 1 percent, ARCO's total gasoline sales rose 9 percent to the highest level in the Company's history.

During 1984, the Company conducted tests of its PayPoint™ debit card network, which allows customers to use a bank automated-teller card to pay for gasoline. ARCO Petroleum Products Company is now negotiating with various financial institutions to expand the PayPoint system to other ARCO-branded outlets. The Company plans to have approximately 400 stations involved by the end of 1985.

Increased competition and excess supplies of refined products depressed refining and marketing margins industrywide in 1984. Atlantic Richfield's downstream operations were also affected, although they continued to perform well compared to our major competitors. Refining and marketing operations reported pretax profits of $279 million, well below year-ago levels as a result of lower margins and a decreased pretax effect of LIFO inventory reductions.

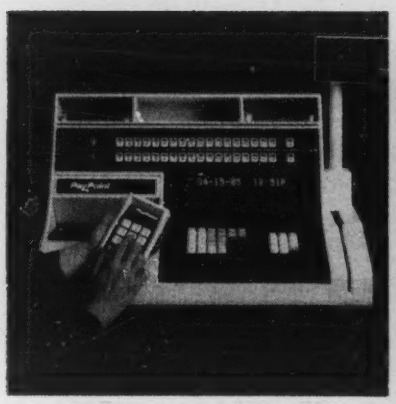
The Company markets gasoline and other refined petroleum products to both consumers and resellers. In the United States, gasoline is marketed under the ARCO trademark, directly and through distributors, to approximately 3,900 branded retail outlets. ARCO branded service stations are located primarily in the Northeast, Mid-Atlantic, metropolitan Chicago area and the West. Gasoline is sold also to unbranded resellers. Automotive oils are sold to retail outlets, distributors and consumers. Heating oil, lubricants and natural gas liquids are marketed through distributors and directly to consumers. Jet fuels are sold directly to airlines and others. Cargo and bulk sales are also made to commercial and industrial consumers, and certain products are marketed through other channels. Additionally, retail marketing operations are conducted in Brazil but generally do not involve refined petroleum products from the Company's refineries.

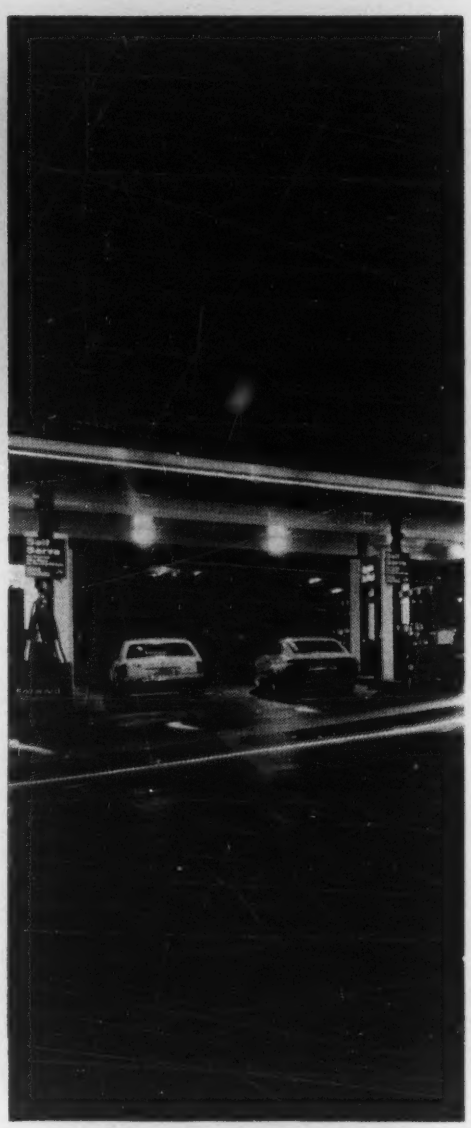
As of December 31, 1984, approximately 790 am/pm® mini markets, a convenience store franchise of the Company, were in operation. Also at year end, the Company had 125 MP&G® Tune-Up Center franchises in operation in the Boston and Los Angeles areas.

Products Group

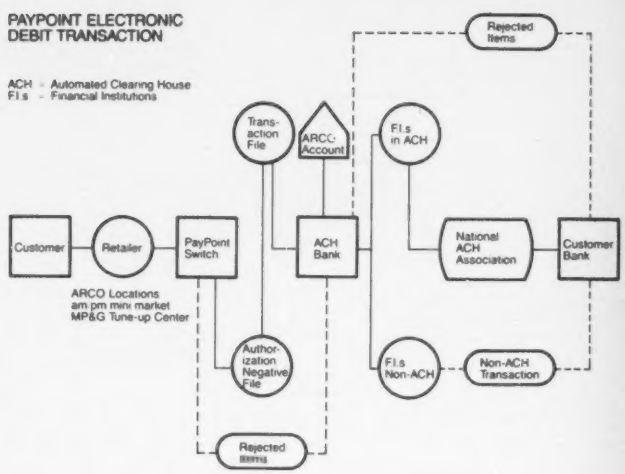
In the Products Group, the second of Atlantic Richfield's two major operating units, refining and marketing, transportation, chemicals and solar operations share a market-driven orientation. This grouping is designed to promote synergies among these businesses, leading to a better understanding of their markets and the development of effective solutions to fill specific market needs.

Atlantic Richfield's innovations in retail gasoline marketing, including am/pm® convenience food stores (far right), have built up the Company's sales volumes dramatically in the face of declining demand. The Company is now introducing the PayPoint™ system, which allows customers to use automated teller machine cards to pay for gasoline and other purchases at participating ARCO stations. The ARCOmatic®, an electronic cash register developed by Company engineers to keep station records and control self-service pumps, has been adapted to handle these transactions.





PAYPOINT ELECTRONIC DEBIT TRANSACTION

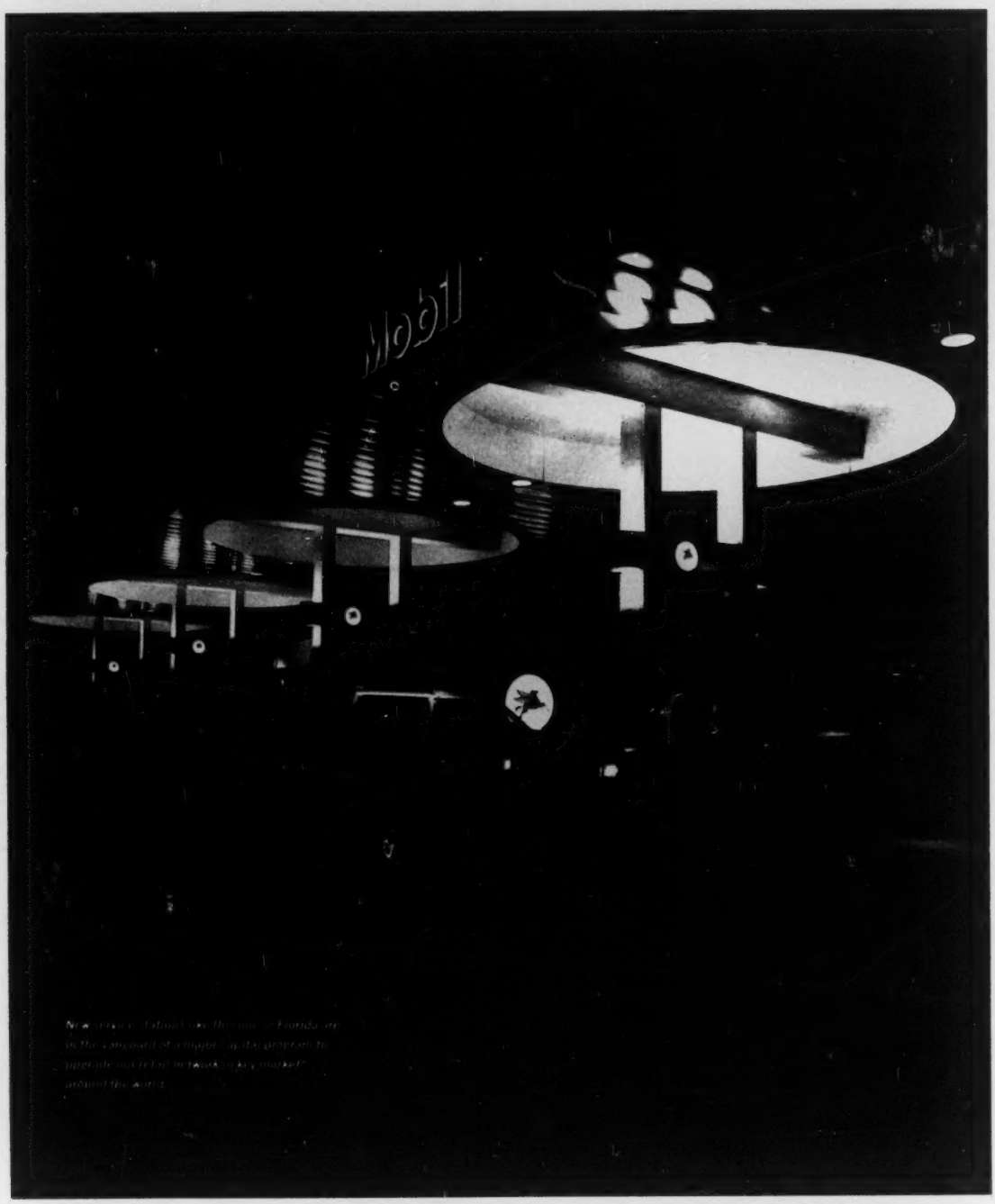


MOBIL OIL CORPORATION
YEAR ENDED DECEMBER 31, 1984

	1980	1981	1982	1983	1984
Sales	$63,726,000,000	$68,587,000,000	$64,137,000,000	$58,998,000,000	$60,474,000,000
Earnings	2,813,000,000	2,433,000,000	1,380,000,000	1,503,000,000	1,268,000,000
Number of Employees	212,800	206,400	188,000	178,100	178,900
Return on Average Shareholder's Equity	23.9%	17.6%	8.5%	10.8%	9.2%
United States Motor Gasoline Sales as a Percentage of Mobil Worldwide Refined Product Sales (by barrels)	18.9%	16.9%	18.0%	19.0%	19.1%
Percentage of Company Stock Owned by Corporate Officers and Directors	39/100ths of 1%	N/A	62/100ths of 1%	37/100ths of 1%	43/100ths of 1%
Number of Pages in Annual Report	63	53	48	48	48
Number of Pages Devoted to Gasoline Marketing	1/3	1/3	1/3	1-1/12	2

Number of Mobil Gasoline Stations in the United States:

12-31-84	13,862
12-31-83	15,403
12-31-82	16,216
12-31-81	16,564
12-31-80	17,425
12-31-79	17,749
12-31-76	N/A
12-31-71	N/A


Mobil

Marketing and Refining Initiatives

Paul J. Hoenmans

To meet the severe competitive challenge of the changing marketplace, we moved forward with a major capital program to upgrade our service station network in key markets around the world. We also continued to consolidate the manufacturing and marketing complex and expand our profitable lube business.

Marketing advances

The 1984 acquisition of more than 100 high-volume operating service stations in Florida, Texas and Arizona furthered our marketing strategy of concentrating in areas of most promising potential. At the same time, we continued to divest ourselves of many low-volume and less economical stations, both in the U.S. and overseas.

We also moved ahead with the worldwide program to construct new high-volume stations and refurbish many of our existing locations. The rebuilding program revolves around a new service station design that incorporates state-of-the-art equipment, improved lighting and expanded space for the sale of convenience store products.

Mobil continues to lead the industry in major markets in the use of cost-saving electronic payment systems to process credit card sales. Electronic point-of-sale (POS) terminals for credit cards are now operating in about 1,700 Mobil service stations throughout the U.S. We are also the U.S. leader in the use of popular debit card systems that allow service station customers to pay through electronic bank transfers while benefiting from Mobil's "discount for cash" program.

Overseas, machines that accept debit cards and bank notes have been installed at many of our Belgian, Norwegian and French service stations, and about half our Japanese retail outlets now have electronic credit card facilities.

In other marketing activities, we began modernizing and upgrading our light products distribution terminal in East Providence, Rhode Island, to improve our supply flexibility in New England, where we are a market leader.

In the lube business, we improved the efficiency of our Cicero, Illinois, lube-blending plant through a substantial upgrading and computerization program. Improvements were also made at our lube-blending plant in Gravenchon, France, and other improvements should be completed this year at our Wedel, Germany, facility as part of a new warehouse automation program.

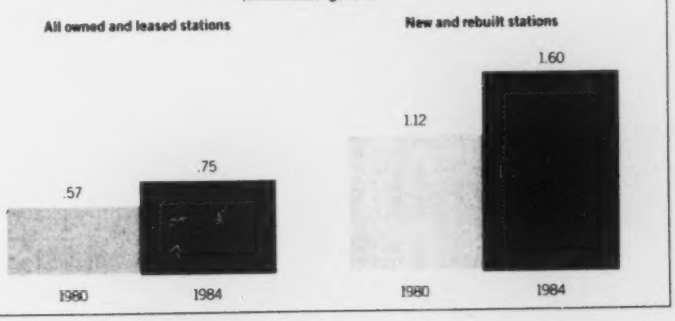
In the product area, our Mobil 1® Rally Formula synthesized motor oil, introduced in 1983, is now being marketed in 16 foreign countries, and sales are brisk.

As part of our worldwide drive to reduce costs and increase profitability, we consolidated several domestic regional marketing offices without adversely affecting field operations. We also sold our heating oil operations in Sweden, our liquid petroleum gas business in Puerto Rico and marketing affiliates in Kenya and Uganda.

We also made progress in strengthening our service station network. The acquisition of more than 100 high-volume service stations in Florida, Arizona and Texas, and our capital program to build and upgrade service stations worldwide, should significantly improve our marketing position in key areas. At the same time, we continue to lead the industry—particularly in the U.S. and parts of Europe—in our use of electronic payment systems to improve cost savings and customer service.

Our ongoing drive to improve operating efficiency and profitability has led to the consolidation of several domestic administrative offices, the sale of certain marginal foreign marketing operations and the closing of uneconomical service stations.

CAPITAL PROGRAM LEADS TO HIGHER ANNUAL THROUGHPUT AT MOBIL'S U.S. SERVICE STATIONS
(in millions of gallons)



Marketing

Mobil Oil's petroleum products are marketed extensively in the United States and in more than 100 other countries. It has approximately 31,000 retail dealer outlets, 45% of which are located in the United States. These products include automotive and aviation gasolines, motor oils and greases, industrial lubricants and greases, marine fuels, jet fuels, lubricants, fuel oil, diesel oil, kerosine, asphalts, naphthas, solvents, waxes, and liquefied petroleum gas. The principal brand names identifying Mobil Oil's products are "Mobil Unleaded," "Mobil Super Unleaded," "Mobil Regular," and "Mobil Premium" gasolines, "Mobiloil," "Mobilheat," "Mobilgrease," "Mobil 1," "Delvac 1," and "Mobil" industrial and marine lubricants and process products.

CHEVRON CORPORATION
YEAR ENDED DECEMBER 31, 1984

	1980	1981	1982	1983	1984
Sales	$41,553,474,000	$45,229,000,000	$35,218,000,000	$28,411,000,000	$27,830,000,000
Earnings	2,400,779,000	2,380,000,000	1,377,000,000	1,590,000,000	1,534,000,000
Number of Employees	40,218	43,281	41,726	40,091	37,761
Return on Average Shareholder's Equity	21.7%	20.0%	10.6%	11.6%	10.6%
United States Motor Gasoline Sales as a Percentage of Chevron Worldwide Refined Product Sales (by barrels)	18.9%	17.8%	19.4%	21.6%	22.6%
Percentage of Company Stock Owned by Corporate Officers and Directors	1/10th of 1%	1/5th of 1%	1/6th of 1%	1/5th of 1%	1/5th of 1%
Number of Pages in Annual Report	56	53	52	52	67
Number of Pages Devoted to Gasoline Marketing	1	1-1/3	1	1	3

Number of Chevron Gasoline Stations in the United States:

12-31-84	10,517
12-31-83	11,021
12-31-82	11,295
12-31-81	11,586
12-31-80	12,139
12-31-79	N/A
12-31-76	N/A
12-31-71	N/A

Chevron acquired Gulf 5/1/84. Figures shown are for Chevron only.

Chevron continues to upgrade its service stations with functional facilities, attractive designs and computerized controls. The offering of consumer choices, including self-serve, full-serve, credit and cash discounts, remains a successful marketing approach.

MARKETING

The marketing end of the petroleum industry, particularly at service stations, is where the effects of supply and demand imbalances are most visible. Not too long ago we had high demand, product shortages and long lines of cars waiting for gasoline. Today, worldwide demand is much lower, gasoline supplies are more than ample and service stations are vying for business.

In today's fiercely competitive market, retailers are emphasizing gasoline sales. They are attracting customers through innovative advertising, purchasing convenience, varied services, longer hours of operation and aggressive pricing policies. In a market that may show little or no growth over the next several years, improved sales will come about through efficiency improvements and imaginative merchandising, and Chevron will meet this challenge.

High volume units and consumer choices are keys

During 1984, Chevron continued its $500 million retail modernization program, through which hundreds of older stations will be upgraded, some retired and new ones constructed in growth areas. The program – including computerized communications, accounting and inventory control systems – will markedly improve the efficiency of stations. Nationwide, Chevron has installed more than 600 computerized systems and will have nearly 2,000 within a few years.

While attractive service station design and landscaping are an important part of the program, stations also are being constructed to meet consumer preferences in specific locations. Depending on the demographics of an area, the automated stations will offer self-serve and/or self- and full-serve gasoline. Additional features – service bays, food marts and car washes – will be installed where consumer demand warrants the investment.

"With such tools," says Chevron U.S.A. President Jim Sylla, "our dealers are becoming more competitive. They're giving customers what they want, and as a result they're recording dramatic increases in gasoline sales. Take the example of an old station we abandoned in Citrus Heights, near Sacramento. We bought some property across the street, put in gas pumps with a mini-mart on the center island. In the old station, the dealer had been selling 55,000 gallons a month. He now sells 150,000 gallons, and we expect that soon he'll reach 200,000. And this dealer now has the mini-mart as an additional profit center."

Chevron has continued its successful marketing strategy of offering choices to consumers, such as the convenience of credit card purchases and discounts for cash. This has worked well for the company. The

All four major American automobile makers used Chevron gasoline for their 1984 Environmental Protection Agency emissions certification tests.

Marketing

The company and its affiliates sell petroleum products throughout much of the free world. The company's principal trademark for identifying its petroleum products is "Chevron". Domestic sales volumes of refined petroleum products by the company during 1984 amounted to 999 thousand barrels daily, roughly equivalent to 6% of total U.S. consumption. Worldwide sales volumes, including the company's share of affiliates' sales and Gulf's sales beginning May 1, 1984, averaged 2,441 thousand barrels daily in 1984, representing about a 5% share of the free world's consumption.

In the United States, the company has service stations in 40 states and the District of Columbia and is one of the leading gasoline marketers on the West Coast and in the southeastern United States. At year-end 1984, the company had over 11,000 retail outlets selling its branded products throughout the United States.

During 1984, Chevron continued its five-year retail modernization program, which involves upgrading hundreds of older stations and constructing new ones in growth areas. The program, which includes the installation of computerized communications, accounting and inventory control systems, is designed to improve the efficiency and the competitiveness of the company's domestic marketing network. Nationwide, Chevron has installed more than 600 computer systems at service stations and will install nearly 1,400 additional systems over the next few years.

Gulf to give marketing a boost

Like Chevron, Gulf in recent years has modernized its retail operations, going to fewer, higher volume units. It has made significant gains in numerous regions; in fact, Gulf in 1984 was one of the top four marketers in 25 of 35 U.S. metropolitan areas.

Precisely how the two marketing organizations will mesh was not known at the end of 1984 because the Federal Trade Commission's requirement prevented the two companies from joining to formulate strategies.

A beneficial aspect of the Gulf merger is the broadened range of sources available to help meet purchased crude requirements. This improved availability reduces the risk of supply interruptions.

Keen competition prevails in today's marketing arena. With product demand relatively flat, the way to increase profitable business is to be aggressive in the marketplace. Chevron will spend a half billion dollars over the next six years on a nationwide service station modernization program designed to keep ahead of this competition. With the addition of Gulf, Chevron now is the nation's largest gasoline marketer, with an especially strong position in the Sunbelt's fastest growing areas.

The trend toward higher-volume self-serve stations is continuing. Meanwhile, the "Yes" advertising campaign has proven to be very successful in attracting new business.

message on choices has been reinforced through the company's "Yes" advertising campaign. At the end of the year, this series of advertisements featured the quality of Chevron's gasoline, pointing out that the four major American automakers use Chevron fuel exclusively for their Environmental Protection Agency emissions certification tests.

The upshot of these efforts? "The company's domestic branded retail gasoline sales," says Sylla, "increased 10 percent in 1984 over the previous year, as opposed to an estimated industry average of 2.5 percent."

Chevron's motor oil sales continued to grow during 1984, up 11 percent over 1983. Two years ago the company launched an expanded program to sell motor oils through mass merchandisers such as supermarket chains. Within the next five years, the company expects to boost lubricant sales through all trade classes to utilize the maximum capacity of the new Richmond Lube Oil Plant.

UNITED STATES STEEL—MARATHON OIL COMPANY

YEAR ENDED DECEMBER 31, 1984

	1980	1981	1982	1983	1984
Sales	$8,671,000,000	$9,733,500,000	$18,907,000,000	$17,523,000,000	$19,104,000,000
Earnings	379,016,000	343,100,000	(361,000,000)	(1,161,000,000)	493,000,000
Number of Employees	15,247	N/A	119,987	98,722	88,753
Return on Average Shareholder's Equity	21.0%	16.6%	(5.6%)	(20.7%)	8.5%
United States Motor Gasoline Sales as a Percentage of Marathon Total Refined Product Sales (by barrels)	53.7%	50.9%	54.7%	59.8%	56.9%
Percentage of Company Stock Owned by Corporate Officers and Directors	8/10th of 1%	63/100th of 1%	63/100th of 1%	Less than 1%	Less than 1%
Number of Pages in Annual Report	52	—	56	56	59
Number of Pages Devoted to Gasoline Marketing	2	1/2	1	1/10	1/2

Number of Marathon Gasoline Stations in the United States:

12-31-84	3,588
12-31-83	3,372
12-31-82	2,998
12-31-81	2,903
12-31-80	2,789
12-31-79	N/A
12-31-76	N/A
12-31-71	N/A

Marathon is countering the static gasoline market in recent years by increasing its share of existing markets. Expansion opportunities result from acquisitions, particularly as other marketers re-trench and abandon segments of their market, and through internal growth. Over the past three years, we purchased three terminals and 105 Midwest service stations which are now being operated by independent businessmen as Marathon-brand outlets. Within the past two years, we also added more than 500 outlets to our network of company-operated stations. A major part of this expansion resulted from the purchase of the remaining 50 percent ownership in four marketing entities—Cheker in late 1983 and, in 1984, Webster, ECOL and Port Oil, whose operations are largely located in the Southeast.

In the downstream segment of our business—refining, marketing and transportation—Marathon is concentrating on several key strategies.

■ We concentrated capital expenditures at our domestic refineries on projects which achieved increased efficiencies in processing wide varieties of crude to produce a greater yield of the more valuable light-end products such as gasoline, diesel and heating oils.

■ We diversified our supply sources to protect against disruptions and to take advantage of price fluctuations in the spot market.

■ We increased our penetration in Marathon's traditional marketing territories, both through the expansion of Marathon-brand sales and our network of company-operated subsidiary brand stations.

Marketing

■ During the year, Marathon purchased the remaining 50 percent of each of three marketing firms — Webster Service Stations, Inc., ECOL, Inc., and Port Oil, Inc. The company also purchased 19 Gas King stations in South Carolina and 17 Koch stations in six states. These additions, located primarily in Marathon's southeastern marketing area, bring to almost 1,300 the number of subsidiary brand outlets, while Marathon-brand stations in the Midwest number approximately 2,300.

■ Domestic product sales averaged 466,800 barrels per day in 1984, compared with 431,100 barrels in 1983. Gasoline sales were up 8.4 percent for the year, while distillates and propane sales increased by 17 and 11.4

STANDARD OIL COMPANY OF OHIO (SOHIO)

YEAR ENDED DECEMBER 31, 1984

	1980	1981	1982	1983	1984
Sales	$11,346,000,000	$14,140,000,000	$13,529,000,000	$12,067,000,000	$12,251,000,000
Earnings	1,811,000,000	1,947,000,000	1,879,000,000	1,512,000,000	1,488,000,000
Number of Employees	22,938	56,572	49,800	43,984	44,200
Return on Average Shareholder's Equity	39.7%	31.0%	28.5%	19.7%	18.1%
United States Motor Gasoline Sales as a Percentage of Sohio Worldwide Refined Product Sales (by barrels)	62.8%	65.0%	65.6%	66.1%	62.6%
Percentage of Company Stock Owned by Corporate Officers and Directors	46/100ths of 1%	N/A	43/100ths of 1%	Less than 1%	Less than 1%
Number of Pages in Annual Report	66	56	64	64	70
Number of Pages Devoted to Gasoline Marketing	1-1/4	1-2/3	1/3	1-1/4	1-1/2

Number of Sohio Gasoline Stations in the United States:

12-31-84	3,000
12-31-83	2,100
12-31-82	2,200
12-31-81	2,300
12-31-80	2,300
12-31-79	2,600
12-31-76	3,300
12-31-71	3,500

Marketing

Sohio is, and for many years has been, the leading marketer of gasoline and other refined petroleum products in Ohio, under the trade name "Sohio". Outside Ohio, Sohio currently markets such products under the trade names "Boron," "BP," "Gas & Go," "Gibbs," "Gulf," "Scot" and "William Penn" through retail outlets in all states east of the Mississippi River except Illinois, New York and Vermont. In February 1985, Sohio acquired Gulf's retail outlets in eight states in the southeast United States.

Throughout its marketing area, Sohio supplies directly (other than through jobbers) a total of approximately 3,000 retail outlets, including the outlets acquired from Gulf. More than half of these outlets are operated by employees of Sohio, the others through independent dealers. Sohio markets automotive petroleum products through full service, limited service and self-service facilities. It also operates gasoline and car wash facilities and specialized car care facilities and has convenience stores at certain of its facilities. Sohio also supplies refined petroleum products to industrial, commercial, governmental and agricultural accounts.

With the addition of the 24 truckstops acquired in the April 1984 acquisition of Truckstops Corporation of America, Sohio currently owns and operates 41 truck stop facilities in the United States.

The principal petroleum products manufactured and marketed by Sohio are gasoline, motor oils, lubricants, diesel fuel, jet fuel, heating oils, kerosene, industrial oils, residual fuel and coke. The Company also markets tires, batteries and automotive accessories through many of the retail outlets it supplies.

Sohio acquired Truckstops Corporation of America from Ryder System, Inc. in early 1984, strengthening its retail marketing position in diesel fuel. Sohio gained 24 full-facility truck stops located along interstate highways in 15 states.

STANDARD OIL CO. OF OHIO (SOHIO)

EXCERPT FROM THE ANNUAL REPORT OF STANDARD OIL CO. OF OHIO (SOHIO), 12.31.84

ProCare Service Expands in Ohio

To insure continued high-quality automotive service to its customers, Sohio introduced the ProCare concept in Ohio.

Based on computerized technology that helps diagnose mechanical problems, ProCare service is performed by employees who have completed specialized training programs that upgrade their automotive diagnostic and repair skills.

The company began by opening six ProCare centers in Toledo, Ohio, in mid-1984. Thirty-one of these centers are scheduled to be in operation in Ohio by the end of 1985.

In addition, Sohio continued to improve the overall efficiency of its retail network in 1984 by increasing conversion to gasoline-only operations.

Additions Strengthen Refining/Marketing

In early 1984, Sohio acquired Truckstops Corporation of America from Ryder System, Inc. The acquisition strengthens Sohio's retail marketing position in diesel fuel. It includes 24 full-facility truck stops along interstate highways in 15 states.

During 1984, Sohio was the successful bidder for a package of Gulf Oil Corporation's refining and marketing properties. Chevron Corporation was required to sell most of these properties as a condition to its acquisition of Gulf.

The company also purchased Truckstops Corporation of America, which operates 24 truck stops, bringing our total to 41 along interstate highways.

• Our refining and marketing business expanded its scope through the acquisition of certain former Gulf Oil Corporation properties from Chevron Corporation.

Marketing Network Extends to Southeast

The marketing and distribution operations that are part of the Gulf acquisition extend Sohio's network into eight southeastern states — Kentucky, Tennessee, Alabama, Mississippi, Georgia, Florida, South Carolina, and North Carolina. These operations provide a secure outlet for most of the Alliance refinery output.

The Gulf acquisition included 215 company-owned and operated service stations in addition to 500 dealer-operated units and another 3,500 retail outlets owned by dealers and jobbers who market petroleum products using the Gulf trademark.

Looking At The Other Businesses

In our refining and marketing business, we see flat product demand for the next several years and tough competitive conditions as the industry adjusts to overcapacity.

However, Sohio has long been successful in downstream petroleum operations. The excellent assets obtained through the acquisitions of Truckstops Corporation of America in 1984 and the Gulf Oil Corporation properties in early 1985 will allow us to take further advantage of our proven abilities in refining and marketing.

Petroleum Product Prices Decline

Demand for petroleum products in the business's primary markets increased 4 percent in 1984 compared with 1983. However, in 1984, prices at the wholesale and retail levels were under pressure and the average retail gasoline price fell 5 cents per gallon. Operating income from refining and marketing was $200 million in 1984 compared with $387 million in 1983, exclusive of a $66 million gain in 1983 from the liquidation of inventories.

During 1984, input to the company's refineries — at Lima and Toledo in Ohio, and Marcus Hook, Pennsylvania — averaged 406,000 barrels per day, up 3 percent from 1983.

At year-end, Sohio's refining capacity, 456,000 barrels per day, was the same as in 1983. Sohio's refineries used 89 percent of their distillation capacity during 1984, compared with a United States industry-wide rate of about 76 percent. The yield of gasoline and other light products was 89 percent in 1984 and 1983.

Continuing a trend, unleaded gasoline increased to 63 percent of gasoline sales in 1984 from 57 percent in 1983.

Refined products sales volumes increased 1.5 percent to 411,000 barrels per day in 1984. In 1983, the company's sales volumes averaged 405,000 barrels per day.

Sohio's ProCare concept of automotive service, introduced in 1984, is based on computerized technology that helps diagnose mechanical problems. ProCare employees have completed specialized training that upgrades their automotive diagnostic and repair skills.

SUN COMPANY
YEAR ENDED DECEMBER 31, 1984

	1980	1981	1982	1983	1984
Sales	$13,411,000,000	$15,475,000,000	$16,038,000,000	$15,325,000,000	$15,397,000,000
Earnings	723,000,000	1,076,000,000	537,000,000	453,000,000	538,000,000
Number of Employees	48,086	45,062	41,438	37,804	37,000
Return on Average Shareholder's Equity	16.8%	21.5%	10.5%	8.7%	10.2%
United States Motor Gasoline Sales as a Percentage of Sun Worldwide Refined Product Sales (by barrels)	46.8%	46.9%	46.7%	44.9%	42.9%
Percentage of Company Stock Owned by Corporate Officers and Directors	6.05%	5.00%	3.5%	3.6%	3.5%
Number of Pages in Annual Report	60	65	56	60	63
Number of Pages Devoted to Gasoline Marketing	2	2	1-1/2	1-1/2	1-1/2

Number of Sun Gasoline Stations in the United States:

12-31-84	7,348
12-31-83	7,665
12-31-82	8,736
12-31-81	9,231
12-31-80	10,406
12-31-79	N/A
12-31-76	13,200
12-31-71	N/A

Marketing

Sun markets extensive lines of refined products within the categories of fuels, lubricants and commodity petrochemicals. The volume of these products sold domestically during 1984 and 1983 was approximately 429.0 thousand barrels daily. Refined product volumes sold by Suncor decreased from approximately 67.0 thousand barrels daily in 1983 to approximately 63.0 thousand barrels daily in 1984. Refined product sales data for the five-year period ended December 31, 1984 are set forth in the tables on page 56 in the Company's 1984 Annual Report to Shareholders.

Gasoline, distillates, jet fuel and residual fuel oil are sold to wholesale, commercial, industrial and retail customers. Retail sales of gasoline primarily under the "Sunoco" and "DX" brands are made largely through service station outlets operated by independent dealers and jobbers in a 28 state marketing area in the eastern one-half of the United States and in Ontario and Quebec, Canada. As of December 31, 1984, Sun marketed through approximately 6,400 domestic and 900 Canadian retail gasoline outlets. Throughout 1984, Sun has continued to follow a program of upgrading and modernizing its domestic retail facilities. This program has contributed to an increase in gasoline volume per retail outlet. Additionally, during 1984, Sun continued to divest marketing assets that were unprofitable or which did not fit Sun's long-range plans. Approximately 300 domestic service stations including its service stations in Florida and most of Virginia were sold. Sun acquired King Kwik Minit Market Inc., a convenience food store chain with 164 stores in Sun's prime marketing area. Sun intends to concentrate on high volume service stations and convenience food stores in geographically concentrated areas in which Sun has a marketing and/or logistical advantage.

Strengthening of the Sunoco brand continued through upgrading service stations, introducing new products and services, and by increasing opportunities for customers to use their credit cards. The sale of Sunoco stations in Florida and most of Virginia, combined with acquisition of 164 King Kwik convenience stores in Ohio, improved the fit between marketing territory and refinery supply, and enabled Sunoco to expand where its market share is higher.

— Introduced the highest octane unleaded gasoline among any major brand to enthusiastic consumer acceptance.

— Expanded and modernized our marketing operations where we have the ability to be most competitive, including the addition of a new chain of convenience stores in the Midwest. We reduced our investment in other areas which did not fit well into our distribution system.

	1984	1983
	(Dollars in millions)	
Operating income	$ 24	$ 60
Cash provided from operations before working capital changes	$144	$198
Capital expenditures	$163	$120
Capital employed at year end	$724	$867
Return on average capital employed	3.8%	10.9%

A fiercely competitive marketplace, resulting from an industry-wide surplus of crude oil and refining capacity, posed a major challenge for Sun Refining and Marketing Company in 1984. To cope with this environment, the company improved productivity by simplifying its business, reducing complement, controlling expenses and building on its strengths.

Clean service stations and summer jobs for young people were dual objectives of the Clean Team Campaign, which was offered by Suncor as a free service to its dealers.

Refining and Marketing

Consumer interest is strong in Sunoco's new Ultra gasoline, introduced in 1984 as the highest octane major-brand unleaded gasoline on the market.

PHILLIPS PETROLEUM COMPANY
YEAR ENDED DECEMBER 31, 1984

	1980	1981	1982	1983	1984
Sales	$13,712,900,000	$16,288,000,000	$15,892,000,000	$15,411,000,000	$15,756,000,000
Earnings	1,070,000,000	879,000,000	646,000,000	721,000,000	810,000,000
Number of Employees	32,400	34,500	29,600	28,400	29,300
Return on Average Shareholder's Equity	23.8%	16.9%	11.4%	12.1%	12.7%
United States Motor Gasoline Sales as a Percentage of Phillips' Total Refined Product Sales (by barrels)	42.0%	41.7%	42.1%	42.0%	42.9%
Percentage of Company Stock Owned by Corporate Officers and Directors	7.8%	8.3%	8.2%	8.6%	2/10th of 1%
Number of Pages in Annual Report	76	77	72	74	76
Number of Pages Devoted to Gasoline Marketing	1/2	1-1/3	2/3	1 page plus cover	1-1/2

Number of Phillips Gasoline Stations in the United States:

12-31-84	10,500
12-31-83	12,000
12-31-82	13,900
12-31-81	13,900
12-31-80	12,805
12-31-79	13,500
12-31-76	17,700
12-31-71	N/A

Customers take advantage of the wide range of services offered at this Phillips-operated station. The station is one of several built by the company to serve as models for independent marketers selling the Phillips 66 brand.

We improved earnings from our refining and marketing activities in spite of lower sales prices for petroleum products and intense competition. This improvement is primarily a reflection of the significant gains we have achieved in operating efficiency, both in refining and transportation. In addition, we have increased our sales volumes and improved our ability to respond quickly to changing market conditions. In our ongoing effort to enhance the visibility of our Phillips 66 brand we constructed new high-volume, company-operated retail outlets, added 600,000 new credit card accounts and began the direct promotion of gasoline sales for the first time since the Arab oil embargo of 1973.

Marketing

In the United States, the company markets refined petroleum products under the Phillips 66 trademark with its highest market concentration in the Midwest. Gasoline and other refined products, as well as tires, batteries and automotive accessories manufactured by others, are distributed in the United States through approximately 10,500 service stations, bulk distributing plants, airport dealers and marinas. Of these, Phillips owns or leases approximately 500 service stations and bulk plants--the majority of which are leased. Phillips is one of the leading suppliers of aviation gasoline and turbine fuel to the private sector of the market.

Petroleum product sales in the United States during 1984 averaged 456,000 barrels a day, compared with 452,000 barrels a day in 1983.

Marketing

Phillips continued a program to emphasize branded retail marketing in 1984. A major thrust of the program included working with the company's independent marketers, who sell the majority of Phillips refined products.

During the year, the company established a retail organization to provide leadership for independent marketers in the areas of station design and operation and in the establishment of a uniform marketing image. As part of this effort, the company had constructed 17 high-volume, company-operated retail outlets at the end of 1984. These outlets, located in select areas in Phillips marketing territory, serve as models for independent marketers. The company is continuing to evaluate the construction of other outlets that offer similar potential.

Emphasis on marketing also extended to the company's advertising program, which was modified during the year to promote sales of Phillips gasoline—the first such direct promotion in 11 years.

To encourage more people to purchase Phillips products and services, a credit card solicitation program was undertaken, which resulted in the issuance of more than 600,000 additional Phillips credit cards during the year.

In addition, a new descriptive credit card billing system will take effect in 1985 that will provide itemized statements to customers. The company also is evaluating automated service station credit card systems.

To promote high standards in aviation products sales and service, the company established a program during the year which recognizes outstanding fixed-base operators. Fixed-base operators bearing the "Aviation Performance Center" designation assure customers of first-class service and facilities.

UNION OIL COMPANY
YEAR ENDED DECEMBER 31, 1984

	1980	1981	1982	1983	1984
Sales	$10,472,500,000	$11,296,200,000	$10,899,100,000	$10,690,500,000	$11,537,700,000
Earnings	647,000,000	791,400,000	804,000,000	625,900,000	700,400,000
Number of Employees	17,995	19,399	20,035	20,304	20,664
Return on Average Shareholder's Equity	20.1%	20.8%	18.2%	12.6%	12.9%
United States Motor Gasoline Sales as a Percentage of Union's Total Refined Product Sales (by barrels)	60.0%	59.6%	58.2%	58.9%	57.7%
Percentage of Company Stock Owned by Corporate Officers and Directors	63/100ths of 1%	64/100ths of 1%	59/100ths of 1%	59/100ths of 1%	Less than 1%
Number of Pages in Annual Report	40	41	42	44	49
Number of Pages Devoted to Gasoline Marketing	1/4	3/4	1	1/2	1-1/4

Number of Union Gasoline stations in the United States:

12-31-84	10,400
12-31-83	11,200
12-31-82	12,700
12-31-81	12,500
12-31-80	12,300
12-31-79	N/A
12-31-76	N/A
12-31-71	N/A

In marketing, petroleum product sales volumes averaged 401,900 barrels per day, compared with 386,000 barrels per day last year.

The western marketing region continued a two-pronged approach to increase gasoline sales volumes in retail outlets:

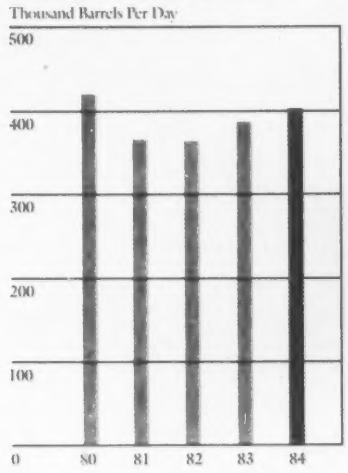
- Construction of "super facility" stations with multiple pump islands and four to six service bays. Forty of these units are now operating, with average outlet sales of at least 150,000 gallons per month.
- Acquisition of existing self-service outlets in key locations. Thirty-five units were purchased in 1984, and each averages about 140,000 gallons per month.

Union remained the only major West Coast supplier of leaded premium gasoline. While sales dipped slightly, this product still accounted for 26 percent of Union's retail gasoline volume in the west.

The eastern marketing region expanded its Self-Serve/Mart program to 123 company-owned diversified outlets, and more are planned in key marketing areas. In addition, Union's Auto/Truckstop system, the nation's largest, added new facilities in Jackson, Georgia, and Tallulah, Louisiana.

Nationally, a seven percent increase in Union Oil credit card accounts brought the total to more than 4.7 million. In December, Union 76 retail outlets began accepting the American Express card.

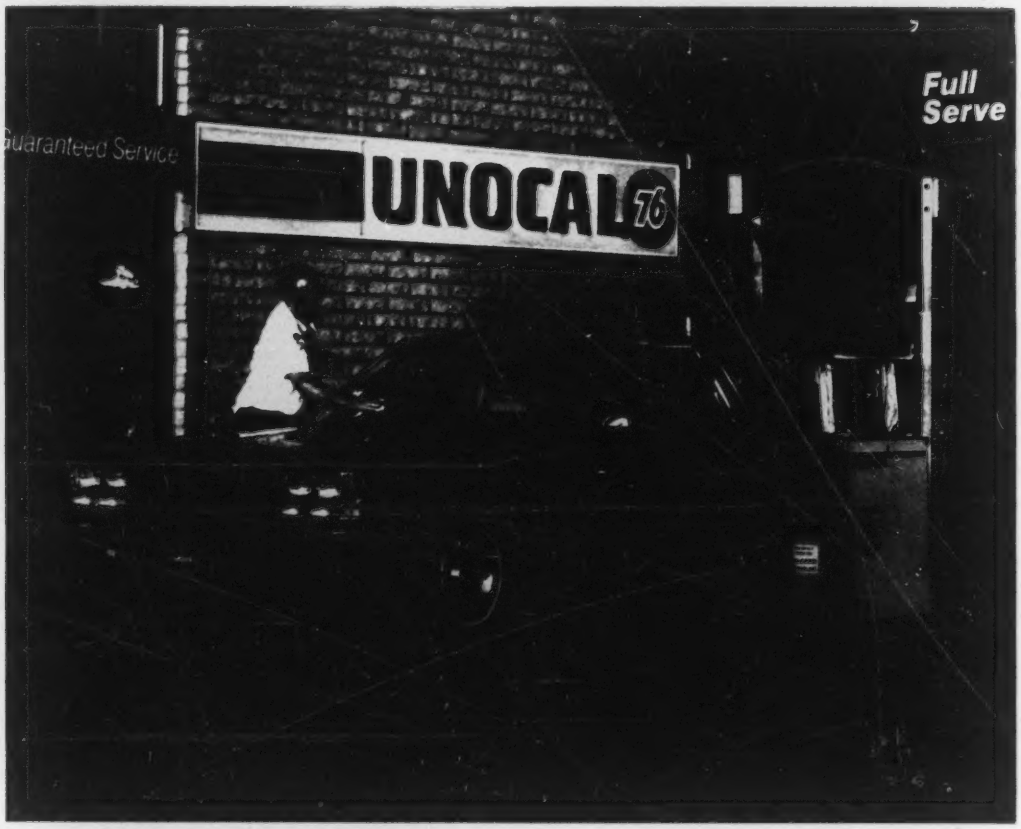
Petroleum Product Sales



ITEMS 1 AND 2 - BUSINESS AND PROPERTIES (Continued)

Domestic Petroleum Marketing

Union's products are distributed in 46 states under the "Union 76" trade name. Marketing was conducted through approximately 750 wholesale marketing and bulk distributing stations and nearly 10,400 service stations and other retail outlets at the end of 1984, including about 350 truckstops, many of which have both truck and passenger car service. Substantially all service stations and other retail outlets, including units owned and leased by the Company, are operated by independent dealers. The wholesale marketing stations distribute products to the Company's retail outlets, sell to others for resale and sell directly to consumers. Through retail outlets, the Company also sells branded tires, batteries and other automobile accessories. Premium motor oils and greases are also marketed through wholesale distributors and to independent marketers throughout the U.S. and in many foreign countries.



Above, service stations will display the company's new Unocal 76 logotype as part of its new corporate identification program. Right, Union's S.S. Coast Range *prepares to dock at the newly rebuilt Avila Beach wharf near the company's Santa Maria Refinery.*

THINKING ABOUT C-STORES
DECEMBER 31, 1984

I operated convenience food stores for over 25 years. I operated convenience food stores and gasoline operations for over 20 years. I tried almost every combination of retail offer I could think of that might make selling less goods for more money a legitimate, healthy, and profitable business. When I felt I finally understood the convenience business, I wrote the "Blind Newsstand" editorial for the Thirteenth Dollars Per Day Survey. My years in the business, and the conclusions I reached in that editorial are the basis for my present comments about the industry.

1. I don't believe in the economic viability of the convenience food store, the C-type store, the stand-alone gasoline station, and especially the Ciosk (a self service gasoline station with an under-the-canopy kiosk that stocks some convenience goods).
2. Everything I say is not necessarily correct. Figure out which things are right for you. Remember that success is often a matter of timing.
3. Almost anything will work if you want to work hard enough. It makes sense to limit your work to important ideas and projects. If the tide is going in your direction, your work will be much easier. It's tough to stand against the tide with a weak concept.
4. Each market is different. All markets are changing, but at different speeds. I believe what happens in California will eventually affect most of you. Those of you who have some geographical insulation from change are blessed to be able to see the future and decide if you want to participate.
5. Food and gasoline will be distributed more efficiently to the American public in the future. Most of the present food and gas offers will become obsolete. There is big opportunity for the business person who can deliver products to the consumers with the lowest operating costs.
6. If you're going to be in the retail business, you'd better become a merchant. You'd better learn how to buy and what it takes to sell. The pace of change in marketing continues to accelerate. You need to understand how your retail offer works and why it works. You may hire others to manage things, but you had better be the force for change in your own organization.
7. Most of you can't make the changes and improvements necessary to keep your retail offers competitive. Most of you are imitators who have developed mind sets about what you've copied.
8. I have a bias against consultants:
   a) Against those who have never actually been in business.
   b) Against those who have been in business, but have worked for others.
   c) Against those who were in the business for themselves and had good reasons for getting out. The health of a concept is inverse to the number of ex-operators trying to make a living giving advice to those just entering the business. They remind me of the farmer that said, "The best crop we raise around here is newcomers."
9. I don't think very many people have made big money in the C-type business. I try to keep track of the individuals that have cashed in their chips and gotten out of the convenience store game. It's not very impressive when after 30 glorious years, those who left with only a million dollars are still on the top ten list.
10. For all the talk about change, the convenience store business hasn't changed much in the past 30 years. The dynamics are still the same. You get a building, you put some fixtures in it, you put some goods on the shelf and you copy the guy down the street. The basic offer is still the same—only the operating systems are more complicated.

A LITTLE ABOUT THINKING:

Each of us has a way that we perceive the world and our business. Scientists call this set of assumptions a paradigm. A paradigm is a model or a pattern and this model or pattern is generally shared by others. Our paradigm explains the world to us and helps us predict its behavior. When we believe in a paradigm and are in the middle of it, it is hard for us to imagine

any other paradigm. It is hard for us to interpret the world in any other way than the way we do.[1]

Ptolemy's description of the universe was one famous paradigm. In Ptolemy's view the earth was the center of the universe. People believed that paradigm for years because it made more sense to them than any other view of the world.

In time, astronomers found discrepancies in the paradigm. Copernicus said the earth moved around the sun. Galileo wrote that perhaps the earth was not the center of the universe. The Cardinals called Galileo to Rome and he spent the rest of his life under house arrest.

Paradigms are not easily changed. The establishment is always fully invested in the old paradigm and is not interested in change. The establishment usually does not change. New ideas start up, are tried, gain acceptance and become the new paradigm. The new establishment is then the resistor of change.[2]

You may not be able to change the way you perceive food and gasoline retailing. You are the establishment and the establishment has a set of shared assumptions of how those businesses should be conducted. Your model of a successful offer is pretty well fixed. Some of you would probably like to put those who would change those formulas under house arrest.

For the next few minutes, try to pretend that you don't have a great physical and psychological investment in your paradigm. Try to keep an open mind and realize that there are people on the fringes who have found discrepancies in your paradigm and are moving in on you. There has been a major change in food and gasoline retailing, and you need to understand it.

WHO WILL BE IN THE GASOLINE BUSINESS IN THE FUTURE:

Only two categories of people can afford to be in the retail gasoline business in the future:

Category 1. Those who own oil in the ground and want to turn it into money. If you have a lot of oil in the ground, you need to have a distribution network to insure that you can turn that oil into dollars.

If the posted price for crude oil is $29.00 a barrel and you lose 10 cents a gallon in the process of turning that into money, you still get $25.00 a barrel for the oil. At the present time, under the present conditions, that's probably not a bad bargain, so long as the net sales price of the oil/gasoline is much higher than the cost of the oil in the ground. Category 1 people will continue to subsidize refining and marketing operations. They are in the business of selling oil. In order to do that profitably they can, at the present time, afford to take some loss on refining and marketing. They are interested in the volume of sales, not the percentage margin on the sale.

Category 2. Those who develop a retail offer in which they run profitable businesses without making any margin dollars from the sale of gasoline. This category will always set the gasoline margins at the retail level in a free market. So long as this category can buy gasoline (and that is less of a problem all the time), they will determine the loss the people in Category 1 will sustain maintaining retail units that rely on retail gasoline margins to pay the costs.

The major oil companies are trying to upgrade and modernize their retail stations. They're building big new units on good retail sites. They appear to be ignoring reality. These new units are budgeted to make money only if they attain unrealistic gallonage levels. Real estate representatives know how much gallonage is necessary to show a budgeted profit from these units, so they oblige a willing management with those figures. As long as Category 2 people don't have to make money from the sale of gasoline, those new major stations will not make money.

Those who amortize their gasoline capital equipment costs and run profitable businesses without gasoline margin will be the survivors in gasoline retailing. So long as there is a free market in crude oil, excess refining capacity, and pricing freedom in retail markets, the chances for profits from gasoline marketing favor Category 2. If the price of oil continues to decline, even oil companies will have to reassess their new gasoline marketing strategies again.

The big story is that you don't have to be in either the oil business or the food business to sell gasoline. Technology has changed that. The development of rapid transit type cash cards frees gasoline retailing from its past paradigm. Any retailer with the space can install gasoline pumps and sell magnetic cards as an auxiliary business. These retailers will sell gas cards instead of gasoline.

1. Smith, Adam, *Powers of Mind* (New York: Random House, 1975).
2. Kuhn, Thomas, *The Structure of Scientific Revolutions* (Chicago: The University of Chicago Press, 1962).

You will be better off if you don't structure yourself as a gasoline station operator or as a small food store operator. The returns in both businesses have not been very good. Both fields suffer from ease of entry problems and strong competition. These businesses have historically had skinny financial returns.

I recapped some of the retail offers that have shown the greatest returns over the past few years on page 5. Forbes magazine's ranking of the four hundred richest Americans has nineteen retailers on the list. Five of the individuals made their fortunes from the retail offers on the schedule. Most of the individuals did it by breaking the paradigms of their chosen field. They changed the rules of their industries.

You will notice that Seven-Eleven's dollars of profit per day per store (or that of any other publicly owned small food store) compares poorly with the very successful retail offers. Profits of the successful companies come from a superior consumer offer coupled with unusual attention to execution and cost effectiveness. These are not hallmarks of the convenience store industry.

Most of the big retail successes made the other guy's business obsolete. Successful offers offer unusual value to the consumer, with all of the retail verities packaged in a way that makes it difficult for established retailers to compete. The concepts are radical enough to be rejected out of hand by the present establishment. The newcomers thus have sufficient lead time to obsolete the accepted paradigm without competition.

Unless you have oil in the ground, most of you need to develop a new retail offer if you want to stay in the gasoline business. There are many things you can do in retailing besides sell food. Your other offer needs to be strong enough so that you don't have to make any immediate margin dollars from gasoline sales. To have a long term place at the gasoline marketing table, you have to do something else well. Only time will tell if having a place at the table will be worthwhile.

WHAT ABOUT GASOLINE RETAILING TODAY?

In 1983, the U.S. had a 99.4 billion gallon market in gasoline. It's a 120 billion dollar business. It appears that 1984 gallonage was up about 2%. It is doubtful that the United States market for gasoline will be much larger in the next 20 years. It is more likely that we will see declines in consumption. The average miles traveled per gallon of gasoline continues to rise, but it will be several years until today's new car fleet averages are the standard. Miles per gallon savings will continue to outpace the increased number of cars and more miles traveled per car. If the fleet average were 32 miles per gallon today, we'd have just a 50 billion gallon market for gasoline.

MOST OF YOU ARE PROBABLY GASOLINE OPERATORS WHO WANT TO BECOME CONVENIENCE STORE OPERATORS. YOU NEED TO KNOW THAT DOESN'T MAKE SENSE:

All businesses are finite. Even segments of businesses are finite. Convenience stores (the less-for-more business) now account for 6.25% of the total United States food store business. Total food store sales in the United States are about 264 billion dollars a year. The convenience food store segment of that business is about sixteen billion dollars. Total food store sales are growing slowly, and the total amount of that business the convenience food store segment can capture is limited. (Note schedule on Page 6).

The number of stores who want a share of the convenience food business is growing faster than the convenience share of the food business. It's like the old days when there was a gasoline station on every corner. If there are four C-type stores on four corners of an intersection, they'll do more business than if there is only one C-type store on one of the corners. It's doubtful any of them will generate enough in sales and margin dollars to be profitable.

The best position in the convenience store business is to have stores with old costs. There is a dramatic difference in operating costs between a store built ten or twenty years ago and a store being built today. You don't have to do much in the way of sales in an old store to be profitable. You have to do a lot of sales in a new store to pay your costs.

The two most successful strategies in the C-type business are: 1) Mining your own old costs; or 2) buying chains with old costs, closing low volume unprofitable units, and then mining those old costs by reaping rewards from the remaining units.

The least successful strategy is to try to make profits from new stores. It is difficult to produce enough sales and margin dollars to pay current costs from a convenience store offer. If you use the established convenience store paradigm, you don't have enough margin dollar potential to pay today's costs. As I've said in past editorials, convenience is dead. It was killed by high operating costs. With the proliferation of new units, there is little chance of a resurrection.

7-Eleven made $56.00 per day per store last year in pretax profits. 41% of their stores sold gasoline and they made $72.00 margin dollars per day per gas unit from the sale of gasoline in those units. They obviously lost money in their basic line of business in many of those stores. 7-Eleven is very good at running convenience stores. They have many years of experience. It is unlikely that you will run stores as well as they do for a very long time.

Most convenience store operators must make money from gasoline to be profitable. This is new. They used to make money from just running stores. You should not enter this business unless you have developed a retail offer that is stronger than the one being used today.

WHAT WOULD I DO IF I WERE AN ESTABLISHED GASOLINE JOBBER OR A TRADITIONAL GASOLINE RETAILER AND FELT I NEEDED TO DO SOMETHING?

I wouldn't invest in the C-store paradigm. The dominant consumer market today is the price market. The price market is the mass market. The C-type store does not attract the price shopper. You can't have a very big business unless you are in the price market. High prices, low quality offers do not appeal to the sense of value that drives today's market. The C-type paradigm is not consistent with today's consumer environment. There was a period when many people said "My time is more important than my money." Today people say money is worth more than their time.

Here's what I'd do:

1. Identify my best location or locations.
2. Try to sell something from that location:
   - Find a need and fill it.
   - Do something cheaper than anyone else.
   - Do something better than someone else.
3. Get in the price business. Go after the real purchase, the planned purchase. Be a V-type (value) outlet rather than a C-type (convenience) store.
4. Limit your offer. Don't try to be all things to everybody. Decide exactly what you want to be good at and try to do that well. Edit your offer so that the customers know exactly what you stand for and why they came to your place to buy.
5. Practice the paradox of retailing. Plan to serve the customer first. Put the customer ahead of profit so that there is likely to be some profit. Put profit ahead of customers and you are likely to come up empty.
6. Learn good retailing principles. Read books on retailing and on successful retailers. There are verities, immutable laws, and revealed secrets about retailing. These are rarely practiced except by the very successful. Good peddlers seem to know them instinctively. The rest of us need to learn them. We violate them to our detriment.
7. Stay away from convenience store people. Their paradigm is a bad paradigm. Throw away convenience store periodicals without reading them. Don't corrupt your good sense. There is no harder starting point for becoming a successful retailer than to begin as a convenience store retailer. The unlearning process is too great. Don't learn the pricing of convenience.
8. Use your common sense. Don't get too sophisticated. Don't worry about organized market studies and demographics. There is an old retail expression: "The customer isn't stupid — she's your wife!" Figure out if you have your wife's business and your wife's relatives' business.
9. Execute well, but don't fine tune. Start with a strong enough concept so you can make money while you learn. Have a strong risk to reward ratio built into your offer.
10. Don't over-analyze. Rely on your gut reaction. A smart fellow once said he wouldn't take any deal that couldn't be explained on the back of a napkin.
11. Think the business through for yourself. Don't copy. Most people copy poorly. They copy the wrong elements and change the right elements. If you try to copy others, you won't know what to change, when to change, and what to change to. Develop your own logic for what you are doing.

12. Visit merchants with successful mass market offers. There are some really good merchants in the United States. There may be too many really good merchants. Visit stores with good reputations and good offers. Try to figure out why their stores are full of customers. Don't copy what they are doing. Try to determine why they are doing it.

13. Own your own real estate. When it's all said and done, owning the real estate may make it all worthwhile. Most gasoline jobbers here today are here because someone had the sense or the good luck to buy the real estate.

Take the best location that you own. Find a legitimate need in the marketplace. Structure the business so that you have a cost advantage. Limit the offer to your strengths. Learn to be a good merchant and end up rich, famous, and on the Forbes 400 list.

NOW THAT ALL OF THE GASOLINE MARKETERS ARE RICH, WHAT SHOULD A C-TYPE OPERATOR DO?

That's harder to answer since I'm a born-again retailer. I'm trying not to think like a C-type store operator. The convenience operator who has an investment in his paradigm starts off with severe limits and liabilities. They first need to decide if they want to be blind newsstand operators. If they are comfortable with that, they should operate by the rules of that business and stop thrashing around trying to be something else. They can't improve from where they are. Improvements to blind newsstands just increase costs and don't add to profitability. Most convenience store operators will be best off by continuing to be blind newsstand operators.

If you decide you don't want to be in that business, you should try to be a V-type operator. Give the public more for less. You should ask yourself, "Are there things I can do with a small store in this community better than someone can do in a larger facility?" "Can I be the economic supplier of some type of product that is in large demand by the consumer public?" If you get good answers to these questions you should consider changing your offer. If not, be careful that you don't just add to your costs and become a blind newsstand dealer with new graphics.

Convenience store operators should re-evaluate whether they should be in the gasoline business. The economics of that business have changed. It has become a capital intensive situation.

When I first went into the gasoline business in 1964, we sold 1,000 gallons of gas a day at a 6 cent a gallon margin and made $60.00 a day in gas margin dollars. The total cost of the gasoline unit was $10,000.

Last year, the C-types in this industry averaged 1,201 gallons of gas a day and made 6 cents a gallon margin or $72.00 a day in gas margin dollars. 7-Eleven recently installed a 6 nozzle, 3 product, small canopy unit without double containment for $85,000. Vapor recovery and double containment will raise future installation costs by 40%.

The basic gasoline offer is the same, but the economics are different. The convenience store two pumper ruined the traditional gasoline station business. It did this initially because it incurred almost no extra costs of operation. It is doing so now because the convenience offer is so poor that C-type stores must sell at a low relative price in order to pump any gallonage.

Most operators feel that the combination of gasoline with food is synergistic. In practice the amount of trade-off sales changes with different volumes and offers. Unless you have old gasoline equipment, C-type store gasoline retailing in new units is a break even business. It is certainly not the cornerstone on which to build stores of the future.

Most convenience store operators probably understand their businesses. They know they can't change the basics of that business very much. They have begun to add a lot of bells and whistles to their operations because they need something to do. I don't think adding scanning, telecommunications, video, and energy controls add much to their profits. There is a strong drive in the industry to computerize and systemize. The management staffs in some organizations work full time on systems, and part time minding the store. I'd advise that they keep things simple so the people they have can run their stores. Don't ask too much of the handicapped.

Many operators need to let Southland know that they exist. 7-Eleven obviously doesn't think too highly of their C-type competition and feels if they build on top of them they'll wither away. It's foolish to struggle too hard when they have you beat on location and have you at a disadvantage. When they build near where you have a good location, you should improve your facility, and your offer. Use your older costs of operation to your advantage and outprice them. If

it costs them enough operating profit, perhaps they'll have more respect for your marketing abilities and staying power. They may not build on top of you many more times. Remember that turnabout is fair play, and they have some locations that are vulnerable.

Buy cheaper. Convenience stores buy terribly. Convenience stores buy so badly that their buying disadvantage has been institutionalized. Some suppliers have organized programs to sell you less goods for more money. They think you should pay more for goods than other channels of trade. You should reread the column from last year's Survey I was shocked when I found out about "Channels of Trade." I suspected that I paid more for soft drinks now and then, but I didn't realize Coca Cola and Pepsi Cola thought it was right that I paid more.

Your sense of fairness probably says that anyone who buys the same quantity of soft drinks should pay the same price. The soft drink companies think that since you sell their product for more money, they should charge you more money to buy it. They consider the mass market retailers to be market expanders. They are willing to offer price to those retailers. Since C-type stores merely trade on brand names to get a high price for goods, soft drink companies think you should subsidize their label's market expansion.

This system has been institutionalized under what they call "Classes of Trade" or "Channels of Trade". You are in a channel of trade and you need to know what that channel is and what that channel pays for soft drinks. You also need to know about all of the other channels of trade and all of the deals they are offered to expand their sales of soft drinks.

Most of you could buy Pepsi Cola and Coca Cola cheaper if you drove a truck down to the local supermarket and bought product from them. Get in the habit of watching the local chain drug and supermarket ads. Call your local bottler and the national company representative when you are paying more than they are selling it for. Don't accept the answer that your competition is selling below cost. The only cost they sell below is yours. You need to instill in the soft drink people a new code of fairness.

They have divided and conquered the retailers by giving each segment of the market a different deal. You have a better deal than some other segments. You should get them to change the policy that small stores pay more per case than big stores for the same quantity of product. Remember that you are dealing with slippery folks. Listen to them and then check what they tell you against the ads and shelf prices of the mass market price competitors.

SO WHAT'S NEXT?

In the next few years, the changes in the mass marketing of food will be as great as when supermarkets were first built. This creates a new area of opportunity. The old paradigm has been broken and the new ones are beginning to take over.

At this point, convenience store chains are still the dominant element in small food store retailing. The gasoline jobbers are staking out a portion of the market in areas where they have been traditionally strong as gasoline operators. The newest players in the game, the major oil companies, are trying to save the best elements of their old distribution system by combining it with convenience food sales. They may do great damage to the convenience store companies without achieving great financial success of their own.

To date, all of these attempts appear to be operating within yesterday's paradigm. Some operators on the fringes have doubts about how the system works, but the store of the future is yet to be built.

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